

UNIVERSITY OF SOUTH CAROLINA
COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2000

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INDEPENDENT AUDITOR'S REPORT

September 20, 2000

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
University of South Carolina
Columbia, South Carolina

We have audited the accompanying basic financial statements of the University of South Carolina as of June 30, 2000, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Faculty House of Carolina, Incorporated, a component unit of the University, which represents less than one percent of both the assets and revenues of unrestricted current funds and auxiliary enterprises. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors. We also did not audit the financial statements of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan, component units of the University, which are presented in a discrete column as part of the primary entity in the accompanying financial statements. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
University of South Carolina
September 20, 2000

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of the University of South Carolina are intended to present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of university funds and the financial position, activities, and cash flows of its discretely presented component units of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the University, an institution of the State of South Carolina. These financial statements include the financial activities of the Faculty House of Carolina, Incorporated, and the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan, components units of the University. These financial statement do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government.

In our opinion, based on our audit and the reports of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University of South Carolina at June 30, 2000, and the changes in fund balances and current funds revenues, expenditures, and other changes of university funds and the activities and cash flows of its discretely presented component units for the year then ended in conformity with generally accepted accounting principles.

These financial statements exclude the related entities described in Note 17 from the reporting entity because the University is not financially accountable for these entities. As part of its affiliated organizations project, the Governmental Accounting Standards Board is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

As described in Note 20, the University corrected an error in fund classification related to the repayment of an advance between funds and changed the fund classification of its compensated absences liability for certain employees contracted to work solely for the Clinical Faculty Practice Plan. In addition, effective July 1, 1999, the University implemented NACUBO Advisory Report 99-1, *Accounting and Reporting for Nongovernmental Grants and Contracts and Gifts*, NACUBO Advisory Report 99-6, *Reporting Safety and Security Expenses by Higher Education*, NACUBO Advisory Report 99-7, *Accounting and Reporting for Capitalization of Software*, and the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*.

Thomas L. Wagner, Jr., CPA
State Auditor

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF SOUTH CAROLINA
Balance Sheet
University Funds and Discretely Presented Component Units
June 30, 2000

ASSETS	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			AGENCY FUNDS	COMPONENT UNITS	TOTALS (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT			
Cash and Cash Equivalents	\$ 57,662,304	\$ 144,273	\$ 2,609,058	\$ 4,801,790	\$ 35,917,114	\$ 3,189,630	\$ -	\$ 1,603,901	\$ 4,286,120	\$ 110,214,190
Investments	-	-	-	4,099,364	-	-	-	-	6,086,103	10,185,467
Loan Participation Deposits	-	-	25,000	-	-	-	-	-	-	25,000
Accounts Receivable - Net	6,256,648	-	-	-	-	-	-	2,001,738	-	8,258,386
Student Loans Receivable - Net	-	-	16,748,079	-	-	-	-	-	-	16,748,079
Notes Receivable	6,150,000	-	-	13,793,910	-	-	-	-	-	19,943,910
Patients Accounts Receivable - Net	-	-	-	-	-	-	-	-	2,879,552	2,879,552
Grants and Contracts Receivable:										
Federal	-	12,198,070	-	-	-	-	-	-	-	12,198,070
State	-	557,348	-	-	-	-	-	-	-	557,348
Local	-	65,207	-	-	-	-	-	-	-	65,207
Non-Governmental	-	4,655,301	-	-	-	-	-	-	-	4,655,301
Private Gifts Receivable - Restricted	-	2,502,682	-	-	-	-	-	-	-	2,502,682
Accrued Interest/Endowment Income Receivable	1,519,682	428,523	27,366	699,083	268,807	83,833	-	8,310	21,864	3,057,468
Capital Improvement Bond Proceeds Receivable	-	-	-	-	42,464,043	-	-	-	-	42,464,043
Capital Reserve Fund Appropriation Receivable	-	-	-	-	1,863,560	-	-	-	-	1,863,560
Other Receivables	-	-	-	-	-	-	-	-	1,368,336	1,368,336
Prepaid Items	2,293,852	71,729	-	-	-	-	-	-	84,774	2,450,355
Inventories	2,195,249	-	-	-	-	-	-	-	-	2,195,249
Due From Other Funds	7,911,875	-	-	-	-	-	-	-	-	7,911,875
Unamortized Bond Discounts	-	-	-	-	-	606,456	-	-	-	606,456
Cash Surrender Value of Life Insurance	-	-	-	1,850,263	-	-	-	-	-	1,850,263
Land	-	-	-	-	-	-	37,201,737	-	-	37,201,737
Buildings and Improvements	-	-	-	-	-	-	618,885,484	-	-	618,885,484
Furniture, Fixtures, Equipment	-	-	-	-	-	-	109,076,363	-	5,234,207	114,310,570
Library Materials	-	-	-	-	-	-	102,300,222	-	-	102,300,222
Construction in Progress	-	-	-	-	-	-	17,927,908	-	-	17,927,908
Leasehold Interest and Improvements	-	-	-	-	-	-	1,168,273	-	9,751,405	10,919,678
Accumulated Depreciation	-	-	-	-	-	-	-	-	(5,181,733)	(5,181,733)
Advance to Other Funds	-	-	-	690,000	-	-	-	-	-	690,000
Other Assets	-	-	-	134,750	-	-	-	-	16,831	151,581
Total Assets	\$ 83,989,610	\$ 20,623,133	\$ 19,409,503	\$ 26,069,160	\$ 80,513,524	\$ 3,879,919	\$ 886,559,987	\$ 3,613,949	\$ 24,547,459	\$ 1,149,206,244

UNIVERSITY OF SOUTH CAROLINA
Balance Sheet
University Funds and Discretely Presented Component Units
June 30, 2000

LIABILITIES AND FUND BALANCES	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			AGENCY FUNDS	COMPONENT UNITS	TOTALS (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT			
Accounts Payable	\$ 5,613,966	\$ 1,906,830	\$ 7,789	\$ -	\$ 1,835,895	\$ -	\$ -	\$ 522,174	\$ 1,628,273	\$ 11,514,927
Accrued Interest Payable	-	-	-	-	-	932,653	-	-	5,000	937,653
Accrued Payroll and Related Liabilities	5,194,443	485,159	-	-	-	-	-	-	-	5,679,602
Student Deposits	747,061	-	-	-	-	-	-	-	-	747,061
Unearned Student Revenues	3,300,585	-	-	-	-	-	-	-	-	3,300,585
Retainage Payable	-	-	-	-	1,856,745	-	-	-	-	1,856,745
Deferred Revenues	6,825,790	-	-	-	-	897,021	-	-	-	7,722,811
Due to Other Funds	-	7,911,875	-	-	-	-	-	-	-	7,911,875
Advance From Other Funds	-	-	-	-	-	-	690,000	-	-	690,000
Capital Lease Obligations	-	-	-	-	-	-	-	-	617,186	617,186
Installment Notes Payable	-	-	-	-	-	-	852,490	-	-	852,490
Bond Anticipation Notes Payable	-	-	-	-	-	-	12,775,000	-	-	12,775,000
Bonds Payable	-	-	-	-	2,623,716	648,760	89,877,524	-	835,000	93,985,000
Notes Payable	-	-	-	-	-	-	-	-	4,875,444	4,875,444
Accrued Compensated Absences	17,761,859	746,014	-	-	-	-	-	-	581,149	19,089,022
Accrued Retirement Contributions Payable	-	-	-	-	-	-	-	-	39,470	39,470
Funds Held for Others	-	-	-	-	-	-	-	3,091,775	-	3,091,775
Other Liabilities	49,003	-	5	24,767	-	-	-	-	-	73,775
Total Liabilities	39,492,707	11,049,878	7,794	24,767	6,316,356	2,478,434	104,195,014	3,613,949	8,581,522	175,760,421
Total Fund Balances	44,496,903	9,573,255	19,401,709	26,044,393	74,197,168	1,401,485	782,364,973	-	15,965,937	973,445,823
Total Liabilities and Fund Balances	<u>\$ 83,989,610</u>	<u>\$ 20,623,133</u>	<u>\$ 19,409,503</u>	<u>\$ 26,069,160</u>	<u>\$ 80,513,524</u>	<u>\$ 3,879,919</u>	<u>\$ 886,559,987</u>	<u>\$ 3,613,949</u>	<u>\$ 24,547,459</u>	<u>\$ 1,149,206,244</u>

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF SOUTH CAROLINA
Statement of Changes in Fund Balances
For the Year Ended June 30, 2000

	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			TOTALS (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
Revenues and Other Additions								
Unrestricted Current Fund Revenues	\$ 466,699,680	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 466,699,680
State Appropriations - Restricted	-	15,215,023	-	67,871	1,200,000	-	-	16,482,894
State Capital Improvement Bond Proceeds	-	-	-	-	27,000,000	-	-	27,000,000
U.S. Government Advance	-	-	245,720	-	-	-	-	245,720
Federal Grants and Contracts - Restricted	-	86,553,145	-	-	420,594	140,808	-	87,114,547
State Grants and Contracts - Restricted	-	12,393,264	-	-	-	-	-	12,393,264
Local Grants and Contracts - Restricted	-	587,447	-	-	677,346	-	-	1,264,793
Non-Governmental Grants and Contracts - Restricted	-	24,444,679	-	-	-	-	-	24,444,679
Private Gifts - Restricted	-	8,421,772	15	16,638	1,351,240	10,000	6,015,701	15,815,366
Income on Endowment Assets - Restricted	-	376,810	-	470,319	-	-	-	847,129
Interest Income - Restricted	-	106,988	124,092	-	1,007,208	366,219	-	1,604,507
Interest on Loans Receivable - Restricted	-	-	390,622	-	-	-	-	390,622
Expended for Plant Facilities (Including \$19,648,877 Charged to Current Funds Expenditures and Capitalized Interest of \$31,717)	-	-	-	-	-	-	58,005,695	58,005,695
Plant Asset Acquired by Installment Note	-	-	-	-	-	-	429,550	429,550
Retirement of Indebtedness (Including \$125,029 Charged to Current Funds Expenditures)	-	-	-	-	-	-	5,369,395	5,369,395
Seat Assessment Fees	-	-	-	-	-	1,177,803	-	1,177,803
Student Tuition and Fees	-	-	-	-	-	8,387,014	-	8,387,014
Realized and Unrealized Gains and Losses on Investments, Net	-	-	-	(585,099)	-	-	-	(585,099)
Increase in Cash Surrender Value of Life Insurance	-	-	-	82,920	-	-	-	82,920
Other Additions	-	273,133	235,210	-	195	-	-	508,538
Total Revenues and Other Additions	466,699,680	148,372,261	995,659	52,649	31,656,583	10,081,844	69,820,341	727,679,017
Expenditures and Other Deductions								
Education and General Expenditures	394,569,119	131,130,920	-	-	-	-	-	525,700,039
Auxiliary Enterprises Expenditures	57,765,511	-	-	-	-	-	-	57,765,511
Indirect Costs Recoveries Remitted to State General Fund	846,024	-	-	-	-	-	-	846,024
Indirect Costs Recovered	-	13,741,594	-	-	-	-	-	13,741,594
Refund of State Appropriations	-	22,514	-	-	-	-	-	22,514
Bond Issuance and Other Costs	-	-	-	-	12,570	32,769	-	45,339
Loan Cancellations and Write-Offs	-	-	220,327	-	-	-	-	220,327
Administrative and Collections Costs	-	-	92,050	-	-	-	-	92,050
Refunded to Grantors	-	-	16,957	-	-	-	-	16,957
Expended for Plant Facilities (Including Noncapitalized Expenditures of \$4,871,661)	-	-	-	-	43,196,762	-	-	43,196,762
Retirement of Indebtedness	-	-	-	-	-	5,244,366	-	5,244,366
Installment Note Addition	-	-	-	-	-	-	429,550	429,550
Interest and Other Charges on Indebtedness	-	-	-	-	-	4,507,547	-	4,507,547
Disposals of Plant Facilities	-	-	-	-	-	-	6,775,334	6,775,334
Total Expenditures and Other Deductions	453,180,654	144,895,028	329,334	-	43,209,332	9,784,682	7,204,884	658,603,914

UNIVERSITY OF SOUTH CAROLINA
Statement of Changes in Fund Balances
For the Year Ended June 30, 2000

	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			TOTALS (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
Transfer Among Funds - Additions/(Deductions):								
Mandatory:								
Principal and Interest	(3,459,260)	-	-	-	-	3,459,260	-	-
Loan Fund Matching Grant	(81,907)	-	81,907	-	-	-	-	-
Non-Mandatory:								
Transfers from Current Funds:								
Restricted	532,229	(1,718,885)	-	894,713	291,943	-	-	-
Unrestricted	(13,365,502)	-	-	1,118,515	11,611,967	635,020	-	-
Transfer from Loan Funds	3,018	3,401	(6,419)	-	-	-	-	-
Transfer from Unexpended Plant Fund	3,875	-	-	-	(3,875)	-	-	-
Transfer from Retirement of Indebtedness Funds	-	-	-	-	3,837,514	(3,837,514)	-	-
Transfers of Debt Representing Proceeds Used for Plant Additions	-	-	-	-	18,665,325	-	(18,665,325)	-
Total Transfers	(16,367,547)	(1,715,484)	75,488	2,013,228	34,402,874	256,766	(18,665,325)	-
Net Increase (Decrease) for the Year	(2,848,521)	1,761,749	741,813	2,065,877	22,850,125	553,928	43,950,132	69,075,103
Fund Balance at Beginning of Year	47,345,424	7,811,506	18,659,896	23,978,516	51,347,043	847,557	738,414,841	888,404,783
(As Restated - Note 20)								
Fund Balance at End of Year	\$ 44,496,903	\$ 9,573,255	\$ 19,401,709	\$ 26,044,393	\$ 74,197,168	\$ 1,401,485	\$ 782,364,973	\$ 957,479,886

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF SOUTH CAROLINA
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 2000

	UNRESTRICTED		TOTAL	RESTRICTED	TOTAL
	EDUCATIONAL AND GENERAL	AUXILIARY ENTERPRISES			
Revenues:					
Student Tuition and Fees	\$ 138,487,429	\$ 3,283,050	\$ 141,770,479	\$ -	\$ 141,770,479
State Appropriations	219,793,816	-	219,793,816	14,515,113	234,308,929
Federal Grants and Contracts	12,909,121	-	12,909,121	73,838,158	86,747,279
State Grants and Contracts	827,080	-	827,080	10,716,217	11,543,297
Local Grants and Contracts	726,215	-	726,215	620,695	1,346,910
Non-Governmental Grants and Contracts	1,818,414	-	1,818,414	23,143,224	24,961,638
Private Gifts	3,461,207	8,242,654	11,703,861	7,727,974	19,431,835
Endowment Income	331,739	85,443	417,182	230,856	648,038
Interest Income	590,810	1,552,668	2,143,478	65,548	2,209,026
Sales and Services of Educational and Other Activities	15,193,343	-	15,193,343	-	15,193,343
Sales and Services of Auxiliary Enterprises	-	52,636,535	52,636,535	-	52,636,535
Telephone Income	244,389	292,239	536,628	-	536,628
Royalty Income	122,762	344,425	467,187	-	467,187
Other Fees	2,095,675	579,072	2,674,747	-	2,674,747
Rental Income	385,479	766,043	1,151,522	-	1,151,522
Other Sources	1,082,836	847,236	1,930,072	273,135	2,203,207
Total Current Revenues	398,070,315	68,629,365	466,699,680	131,130,920	597,830,600
Expenditures and Mandatory Transfers:					
Educational and General:					
Instruction	194,300,226	-	194,300,226	1,730,995	196,031,221
Research	23,431,336	-	23,431,336	54,242,310	77,673,646
Public Service	15,115,820	-	15,115,820	39,372,934	54,488,754
Academic Support	54,629,528	-	54,629,528	32,378	54,661,906
Student Services	22,648,574	-	22,648,574	329,078	22,977,652
Institutional Support	33,393,059	-	33,393,059	67,394	33,460,453
Operation and Maintenance of Plant	37,085,288	-	37,085,288	84,204	37,169,492
Scholarships and Fellowships	13,965,288	-	13,965,288	35,271,627	49,236,915
Total Educational and General Expenditures	394,569,119	-	394,569,119	131,130,920	525,700,039
Mandatory Transfers for Loan Fund Matching Grants	81,907	-	81,907	-	81,907
Total Educational and General	394,651,026	-	394,651,026	131,130,920	525,781,946
Auxiliary Enterprises:					
Expenditures	-	57,765,511	57,765,511	-	57,765,511
Mandatory Transfers for Principal and Interest	-	3,459,260	3,459,260	-	3,459,260
Total Auxiliary Enterprises	-	61,224,771	61,224,771	-	61,224,771
Total Expenditures and Mandatory Transfers	394,651,026	61,224,771	455,875,797	131,130,920	587,006,717
Other Transfers and Additions/(Deductions):					
Nonmandatory Transfers In	3,999,004	150,000	4,149,004	3,401	4,152,405
Nonmandatory Transfers Out	(10,253,713)	(6,721,671)	(16,975,384)	(1,718,885)	(18,694,269)
Indirect Cost Recoveries Remitted to State	(846,024)	-	(846,024)	-	(846,024)
Refunds of State Appropriations	-	-	-	(22,514)	(22,514)
Excess of Restricted Receipts Over Transfers to Revenues	-	-	-	3,499,747	3,499,747
Total Other Transfers and Additions/ (Deductions)	(7,100,733)	(6,571,671)	(13,672,404)	1,761,749	(11,910,655)
Net Increases/(Decreases) in Fund Balances	\$ (3,681,444)	\$ 832,923	\$ (2,848,521)	\$ 1,761,749	\$ (1,086,772)

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF SOUTH CAROLINA
 Combined Statement of Activities - Component Units
For the Year Ended December 31, 1999

Revenues:

Patient Charges, Net of Contractual Adjustments and Refunds	\$ 18,629,394
Other Professional Income	8,961,024
Investment Income	678,102
Rental Income	290,251
Contributions to Trust from Other Sources	1,197,292
Other Income	<u>1,484,102</u>
Total Revenues	<u>31,240,165</u>

Expenses:

Support of Medical School and Clinical Facilities	3,007,284
Operation of Clinical Facilities	24,887,739
Operation of Building and Equipment	2,106,259
Management and General	<u>318,218</u>
Total Expenses	<u>30,319,500</u>

Excess of Revenues over Expenses

920,665

Other Comprehensive Income -
 Net Decrease in Unrealized Investment
 Holding Gains

(435,693)

Comprehensive Income

484,972

Fund Balances, Beginning of Year15,480,965**Fund Balances, End of Year**\$ 15,965,937

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF SOUTH CAROLINA
 Combined Statement of Cash Flows - Component Units
For the Year Ended December 31, 1999

Cash Flows From Operating Activities

Excess of Revenues Over Expenses	\$ 920,665
Adjustments to Reconcile Excess of Revenues over Expenses to Net Cash Provided by Operating Activities:	
Gain on the Sale of Investments	(303,109)
Undistributed Earnings on Investments	(44,167)
Depreciation and Amortization	845,552
Provision for Uncollectible Accounts	(63,578)
(Increase) Decrease in Assets:	
Patients Accounts Receivable	57,593
Other Receivables	(303,031)
Prepaid Items	2,562
Increase (Decrease) in Liabilities:	
Accounts and Accrued Interest Payable	490,461
Accrued Compensated Absences	149,220
Accrued Retirement Contributions Payable	(75,348)
Net Cash Provided by Operating Activities	<u>1,676,820</u>

Cash Flows from Investing Activities

Proceeds from Sale of Investments	1,238,181
Cash Paid for Investments	(2,446,571)
Cash Paid for Property and Equipment	(825,626)
Net Cash Used by Investing Activities	<u>(2,034,016)</u>

Cash Flows from Capital and Related**Financing Activities**

Principal Repayments, Capitalized Lease Obligations	(198,451)
Principal Repayments, Notes Payable	(115,319)
Principal Repayments, Revenue Bonds	(45,000)
Net Cash Used for Capital and Related Financing Activities	<u>(358,770)</u>

Net Decrease in Cash and Cash Equivalents

(715,966)

Cash and Cash Equivalents, Beginning of Year5,002,086**Cash and Cash Equivalents, End of Year**\$ 4,286,120

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the recognized standard - setting body for generally accepted accounting principles (GAAP) for all state governmental entities including colleges and universities. The financial statements of the University of South Carolina have been prepared in accordance with GAAP as outlined in Governmental Accounting Standards Board (GASB) Statement No. 15. The statement permits the entity to use the American Institute of Certified Public Accountants (AICPA) College Guide model. The AICPA College Guide model is the accounting and financial reporting guidance as defined by the AICPA Industry Audit Guide, *Audits of Colleges and Universities*, as amended by the AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements.

A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the University and all of its component units blended in the primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determine its budget without another government's having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of these powers. Based on these criteria, the University has determined this financial reporting entity includes the University (a primary entity) with all of its component units blended therein.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Primary Entity

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina. The University is composed of the Columbia campus, the School of Medicine, and seven regional campuses. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees is composed of three ex-officio members which include the Governor (or his designee), the State Superintendent of Education, and the President of the Greater University of South Carolina Alumni Association; sixteen members elected by general vote of the General Assembly; and one at-large member appointed by the Governor. The Board is the governing body of the University and administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, the changes in fund balances, and the current funds revenues, expenditures, other changes of university funds and the financial position, activities, and cash flows of its discretely presented component units of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component units.

Component Units Blended in Primary Entity

Based on the application of the above criteria, certain component units are included in the reporting entity because of the significance of their operational or financial relationships with the University. The following identifies the University's component units and the methods of reporting them in these financial statements.

(1) In Discrete Column and Separate Financial Statement Presentations

The University of South Carolina School of Medicine Educational Trust (the "Trust") and Clinical Faculty Practice Plan (the "Practice Plan") are component units of the University which are blended in the primary entity in a discrete column on the balance sheet. Separate statements of activities and cash flows are presented for these component units. The Trust is organized and operates exclusively for the benefit of the University's School of Medicine in order to augment and aid education, service, research and development in the health sciences and in the

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component Units Blended in Primary Entity (Continued)

(1) In Discrete Column and Separate Financial Statement Presentations (Continued)

fields of preventive and curative medicine. In conjunction with these functions, the Trust oversees the Practice Plan which exists to provide high quality health care in conjunction with enhanced teaching opportunities. The School of Medicine has reserved the right to terminate the Practice Plan at any time upon the vote of two-thirds of the participating clinical faculty members and upon the approval of the Dean of the School of Medicine and the University's Board of Trustees. However, in conjunction with the issuance of certain revenue bonds (See Note 4.), the University has agreed not to permit the termination of the Practice Plan at any time prior to full repayment, including interest, of such bonds.

The Trust is considered a component unit because the University has appointment authority of its board. The Practice Plan is considered a component unit because it is governed by the board of directors of the Trust. Due to the controlled governance by the University and the primary purposes of the Trust and Practice Plan to provide services almost entirely to the University, they must be presented as blended component units in accordance with GASB Statement No. 14 *The Financial Reporting Entity* guidance. The transactions between the University and these component units will not agree in the accompanying financial statements because they have different fiscal year-ends. All activity reported for the component units including the information shown in the Notes to the Financial Statements is as of and for the year ended December 31, 1999. Complete financial statements of the Trust and the Practice Plan can be obtained by writing the administrative office of the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina, 29202.

(2) Blended Within University Funds

The Faculty House of Carolina, Incorporated (the "Faculty House") a not-for-profit corporation, is a component unit of the University which is blended in the primary entity as an auxiliary enterprise in the unrestricted current funds group. The Faculty House operates on the Columbia campus for the benefit of the University as a private dining and social activities club for members.

The Faculty House is considered a component unit because the University has appointment authority of its board. All activity reported for the Faculty House is as of and for the year ended August 31, 1999. Complete financial statements of the Faculty House can be obtained at the administrative office of the Faculty House of Carolina, Inc., McCutchen House, University of South Carolina, Columbia, South Carolina, 29208.

Presentation of Component Units

Some component units, despite being legally separate, are so intertwined with the University that they are, in substance, the same as the primary entity. Such component units' balances and transactions are blended with those of the primary entity, i.e., reported in the applicable university fund groups as if they were balances and transactions of the primary entity or reported in discrete columns and included in the "primary entity" totals. For those blended component units not converted to the AICPA college and university model, separate statements of activities and of cash flows are presented.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Presentation of Component Units (Continued)

Discrete presentation entails reporting aggregated component unit financial data which has not been converted to the AICPA college and university model in separate columns or on separate financial statements of the primary entity. The columns and financial statements are labeled "component units."

Basis of Accounting - University Funds

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant and equipment assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for academic sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Transfers are amounts moved between fund groups/subgroups to be used for the objectives of the recipient fund. Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant; agreements to match gifts and grants; or required matching of certain federal loan programs. Other interfund transfers are made at the discretion of the governing body and are reported as nonmandatory transfers.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations; purchases and normal replacement of movable equipment; and library materials; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

Basis of Accounting - Discretely Presented Component Units

The University's discretely presented component units conduct business-like activities similar to those found in the private sector. They are financed primarily through user charges. The measurement focus of these entities is on the flow of economic resources and the determination and presentation of operating results, financial position, and cash flows.

The accounting policies of these entities conform to GAAP applicable to governmental not-for-profit activities as prescribed by GASB. Effective for fiscal year ended December 31, 1996, these component units implemented GASB Statement No. 29 *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*. That statement provides that governmental entities that heretofore applied the not-for-profit accounting and reporting principles prescribed in the AICPA's Statement of Position (SOP) 78-10 have two options regarding their reporting model, the governmental model or the AICPA not-for-profit model. These University's component units are considered governmental in nature

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting - Discretely Presented Component Units (Continued)

and therefore subject to the governmental accounting model. Because the University's discretely presented component units are self-supporting, they have adopted paragraph 7 of GASB Statement 20 pertaining to enterprise funds and are applying all FASB statements and interpretations issued after November 30, 1989, except those that conflict or contradict with GASB pronouncements. The separately issued component unit financial statements are not presented in accordance with governmental GAAP. Those statements include a combined statement of activities instead of a combined statement of revenues, expenses, and changes in retained earnings. Also, the combined statement of cash flows presents transactions in three categories rather than four as required by governmental GAAP.

These entities use the accrual basis of accounting. If measurable, revenues are recognized when earned and expenses when incurred.

Fund Accounting - University Funds

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use the funds in achieving any of its institutional purposes.

All realized gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds, except for certain quasi-endowment income which is required to be added to the principal or unless the endowment agreement requires the income to be added to the corpus.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction, research, and public service. For a more meaningful disclosure, the

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations in the unrestricted current funds. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year.

Auxiliary enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include athletics, housing, bookstores, food services, student health services, parking operations, coliseum operations, and the Faculty House. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was \$14,827,970 at June 30, 2000.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, charges for collectibility allowances, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

The *Endowment and Similar Funds* group includes endowment funds, term endowment funds, and funds functioning as endowments (quasi-endowment). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Some endowments require the income to be used for specified purposes and others contain no such restrictions. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. While quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized and unrealized gains/losses attributable to investment transactions.

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

sources and any debt related to unexpended resources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. Receipts legally designated solely for plant improvements or debt service related to plant assets are recorded directly in the University's unexpended plant or retirement of indebtedness plant fund as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically accumulated for interest and principal payments, debt service reserve funds, unamortized balances of bonds payable discounts, and the portion of debt related thereto, interest and other debt service charges related to plant fund indebtedness, and federal interest subsidies. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students and of student organizations and other groups directly associated with the University, neither of which receives University funding.

Fund Accounting - Discretely Presented Component Units

The University's discretely presented component units use proprietary fund accounting. The funds of the Trust and Practice Plan are unrestricted, comprised of four designated groups. The four groups relate to support of the medical school and clinical facilities, operation of clinical facilities, operation of building and equipment of the Trust and Practice Plan, and educational trust general operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental and non-governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. Federal training grants and contracts whose annual award is two hundred thousand dollars or less are also exempt from the requirement to remit recoveries to the State General Fund.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave, except that faculty members do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments. The liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds or restricted current funds, as applicable. Effective July 1, 1999, the University began recording in the restricted current funds the portion of the compensated absences liability for certain employees contracted to work solely for the Practice Plan (See Note 20). The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Resources for payments of principal and interest on the Brucoli Collection installment agreement are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant funds as the installments are paid. Payments of principal and interest on the University's other installment contracts are recorded in the applicable educational expenditure categories of the current funds group as the installments are paid.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets in "Buildings and Improvements" and values them at cost.

Construction expenditures for major additions and renovations to plant facilities are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup. Upon completion of a project, the costs are capitalized in the appropriate asset accounts in investment in plant.

Effective July 1, 1999, computer software costs to be capitalized include the external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)

are directly associated with and who devote time to the internal-use computer software project; interest costs incurred when developing computer software; and costs to develop or obtain software that allows for access or conversion of old data by new systems. These costs are incurred during the application development stage. See Note 20 for information about the related accounting change.

All library books, periodicals, microfilms, and other library materials regardless of cost/fair value are recorded at cost or fair market value at the date of donation. Library books deletions are written off at year-end at average cost based on the actual number of volumes deleted. The University capitalizes equipment with a unit value in excess of \$5,000 and computer software with a unit value in excess of \$100,000 and having expected lives in excess of two years. Under this policy, the University has no capitalized software. Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts and in the investment in plant funds subgroup.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Information Technology Costs

Noncapitalized information technology (IT) costs are not budgeted, and reported by benefiting functional expenditure classification but those related to the college's missions of instruction, research, and public service are budgeted and reported in the academic support category and other IT costs are reported in institutional support.

Capitalized Interest

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in the investment in plant subgroup include such interest costs.

Bond Discounts and Amortization:

Deferred charges consisting of bond discounts are reported in the asset section of the balance sheet of the retirement of indebtedness plant funds subgroup and are amortized as an element of interest on indebtedness over the lives of the applicable bond issues using the straight-line method. Amortization of deferred charges is reported as an addition to interest and other charges on indebtedness.

Deferred Revenues and Unearned Student Revenues

In unrestricted current funds, deferred revenues primarily consist of receipts collected in advance for athletic events which amounts have not been earned. Unearned student revenues consist primarily of student tuition and fees and room and board collected in advance for the summer and fall academic terms. In retirement of indebtedness plant funds subgroup, deferred revenues consist of seat assessment fees related to receipts collected in advance for athletic events.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Student Deposits

Student deposits represent security deposits for possible room damage and key loss and other deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures.

The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Educational and Other Activities Revenue

Revenues from sales and services of educational activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from charges for continuing education programs. "Other Activities" revenues in this account include those from copier machines, the University Press, and computer center activities.

Prepaid Items

Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

Fund-raising Costs

The costs of fund-raising activities are reported in the institutional support functional category and do not include management and general or other program costs of the University. The costs of incidental fund-raising activities conducted in conjunction with other program activities are not separately reported. Incidental fund-raising costs are included in the related program expenditures of the appropriate functional category.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the internal cash management pool, see the deposits disclosures in Note 15.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost. It reports its deposits in the special deposits accounts at fair value. Investments held by the pool are reported at fair value.

Interest earned by the University's special deposit accounts is posted at the end of each month and is retained by the University. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of the pool. Reported interest/investment income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are accrued and allocated at year end based on the percentage ownership in the pool.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The University has no rebatable arbitrage liability at June 30, 2000.

Intraentity Transactions and Balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds and for the component units involved. Reimbursement transactions for expenditures initially made by one fund or component unit that are applicable to another are recorded as expenditures in the reimbursing fund or component unit. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated. Interfund transactions between discretely presented component units have not been eliminated. However, transfers between discretely presented component units are considered operational in nature and are included in excess of revenues over expenditures.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Totals (Memorandum Only) Columns

Amounts in the "Totals (Memorandum Only)" columns of the financial statements present an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data except material expenditure reimbursements and certain other intraentity transactions and balances between the University and component units blended in the University's funds.

Discretely Presented Component Unit Accounting Policies

Significant accounting policies of the University's discretely presented component units are described below. Whereas, general disclosures for such entities are separately identified within each applicable note.

Patient Charges and Accounts Receivable - Component Units

The Practice Plan, through its affiliation with a local hospital which serves as a regional medical and trauma center, serves a number of indigent patients who are not covered under any type of insurance. Certain gross patient charges are subject to adjustment by third party reimbursers and a percentage of patients do not meet their obligations. Therefore, Practice Plan patient accounts receivable are recorded net of estimated indigent care and contractual adjustments as well as net of an allowance for doubtful accounts.

Interfund Support - Component Units

In accordance with the terms of the Practice Plan agreement, as amended, certain percentages of gross Practice Plan professional revenues are contributed to the Dean's Academic Enhancement subfund of the Trust and to the Departmental Operations subfund. The percentages, currently 7.0 percent and 1.0 percent, are authorized by the Board of Trustees of the University. The contributions in 1999 were \$1,868,071 and \$266,868. In addition, operating units of the Trust and Practice Plan, which utilize building space, transfer funds in lieu of rent payments. Additionally, net cash-basis revenues are contributed to the Trust by the Practice Plan annually. The transfer for support in 1999 was \$1,951,361. To the extent that total amounts due from the Practice Plan to the Trust have not been deposited by the Trust as of December 31, such amounts are reflected in the due to/from balance sheet accounts. See the component unit condensed financial statements in Note 21.

Building and Equipment - Component Units

The Trust and the Practice Plan assets are recorded at historical cost. Depreciation is recognized on these assets over their estimated useful lives as follows:

	<u>Method</u>	<u>Estimated Useful Life</u>
Buildings	Straight-line	40
Leasehold improvements	Straight-line	31.5-39
Furniture and office equipment	Double-declining balance	5-7
Medical equipment	Double-declining balance	7

Depreciation recognized in the plant funds of the Trust and the Practice Plan during the current year totals \$844,149.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization - Component Units

Loan costs related to the Trust's acquisition of two buildings are being amortized using the straight-line method over the lives of the respective loans as follows:

Medical Park II	5 years
Medical Park IV	20 years

Amortization recognized in the current year totals \$1,403. The unamortized balance at December 31, 1999, is \$16,831.

Compensated Absences - Component Units

The Trust and the Practice Plan reimburse the University of South Carolina for the salaries and fringe benefits of non-faculty personnel. Additionally, funds are contributed to the University of South Carolina in support of the salaries of certain faculty personnel. These organizations have various policies concerning the accrual of vested vacation compensation. The liability for accrued compensated absences as of December 31, 1999, reflects the value of such compensation earned but not yet utilized, including fringe benefits.

Income Taxes - Component Units

The Trust is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation within the meaning of Section 509(a). A tax return is filed to report the operations of the Trust and the departments of the Practice Plan.

Cash and Cash Equivalents - Component Units

The amounts shown for the Trust and the Practice Plan in the cash flows statement as "cash and cash equivalents" represent balances in demand deposit bank accounts and money market funds and certificates of deposit having original maturities of three months or less.

Investments and Other Comprehensive Income - Component Units

Investments consist of long-term certificates of deposit, obligations of the U.S. Treasury, equity securities, and mutual funds. Investments in marketable debt and equity securities are considered to be available for sale, therefore, they are carried at fair value. The net change in the cumulative balance of unrealized gains/losses on investments is reported in "other comprehensive income" on the statement of activities and the cumulative net amount is reflected as a separate component of fund balance.

Other Professional Income - Component Units

Other professional income consists of revenue earned by the participants in the Practice Plan for the provision of medically-related services other than Practice Plan patient care. The primary sources of this revenue are contractual arrangements with eleemosynary organizations.

Other Income - Component Units

Other income consists primarily of revenue received by participating clinics in the form of support to defray operating expenses.

Comprehensive Income - Component Units

The Trust reports comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in the statement of activities.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 2 - STATE APPROPRIATIONS

The original appropriation is the University's base budget amount presented in the General Funds column of Sections 5KA through KH of Part IA of the 1999-2000 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2000:

Original Appropriation	\$189,578,250
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State Budget and Control Board Allocations:

Employee Base Pay Increases and Related Employee Benefits (Proviso 63C.10.)	5,666,534
Allendale Initiative - Salkehatchie Leadership Center (Part IV of 2000 Appropriation Act)	125,000
Deferred Compensation Matching Funds (Proviso 72.48.)	253,228

Appropriation Allocations from the State

Commission on Higher Education:

Performance Funding	23,568,437
Palmetto Fellows Scholarships	3,098,501
Need-Based Student Grants	2,430,492
Life Scholarships	8,356,585
Star Scholarships	30,669
Academic Endowment Incentive Funding	618,036
Access and Equity	177,453
Access and Equity Competitive Grant	4,500
Endowed Professorship	67,871

Supplemental Appropriations from 1999 Surplus

State General Fund Revenues

(Part IV of the 2000 Appropriation Act):

Salkehatchie Campus Facility Upgrade	1,000,000
Union Campus Truluck Activities Center Renovation	200,000
Baruch Institute National Estuarine Research Reserve	131,113
Law Library	289,301

Transfers from the Department of Revenue for Education

Improvement Act (Part IA, Section 1X.K. and

Proviso 1A.34. of the 2000 Appropriation Act):

Writing Improvement Network	318,240
S.C. Geographic Alliance	75,000
School Improvement Council Project	87,500

Transfer from the Department of Health and Environmental Control

for the Lancaster-Kershaw Rural Health Center Annualization	<u>200,000</u>
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State Appropriations Revenue	<u>\$236,276,710</u>
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UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

State appropriations revenue is reported in the following funds:

Unrestricted Current Funds	\$219,793,816
Restricted Current Funds	15,215,023
Endowment Funds	67,871
Unexpended Plant Funds	<u>1,200,000</u>
	<u>\$236,276,710</u>

As authorized by Part III of the 2000 Appropriation Act, the University brought forward \$586,398 of appropriations to fiscal year 2000 as follows:

Institute of Public Affairs - Civic Education	\$195,000
Small Business Development Center	191,398
African American Professors Program	200,000

The University recognized the following revenues from the State Commission on Higher Education as state grants and contracts revenue in the restricted current funds subgroup.

Manufacturing Extension Partnership	\$1,800,000
Research Incentive Grants	864,272
Centers for Excellence Program	258,570
Higher Education Awareness Program	8,084
Instructional Technology Incentive Grants	228,269

In addition, the University received from the State Commission on Higher Education \$2,500,000 for the South Carolina Experimental Program to Stimulate Competitive Research (EPSCOR) Program and \$600,000 for the South Carolina Alliance for Minority Participation Program (SCAMP). The University as fiscal agent accounted for the programs through its agency funds. The University recognized revenues of \$938,995 from the EPSCOR Program and \$194,550 from the SCAMP Program which are reported as state grants and contracts revenue in the restricted current funds group.

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In fiscal year 2000 and in prior years, the State authorized funds for improvements and expansion of various facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The total balance receivable for

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS (CONTINUED)

the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable." A summary of the activity in the balances available from these authorizations during the year ended June 30, 2000, follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 2000</u>	<u>Balance Authorized June 30, 2000</u>
Act 522 of 1992	\$39,560,130	\$39,528,227	\$ 9,600	\$ 22,303
Act 111 of 1997	31,541,065	10,414,739	4,343,075	16,783,251
Act A28 of 1999	<u>27,000,000</u>	<u>-</u>	<u>1,341,511</u>	<u>25,658,489</u>
Total	<u>\$98,101,195</u>	<u>\$49,942,966</u>	<u>\$5,694,186</u>	<u>\$42,464,043</u>

The entire balance is reported in the unexpended plant funds subgroup. The University is not obligated to repay these funds to the State.

NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES

Bonds Payable

At June 30, 2000, bonds payable consisted of the following:

<u>University</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 2000 Balance</u>
State Institution Bonds			
Series 1993B	4.4% to 4.65%	04/01/03	\$ 5,175,000
Series 1996B	5.0% to 7.00%	04/01/16	26,515,000
Revenue Bonds			
Series 1996	5.3% to 6.8%	06/01/26	23,985,000
Series 1997	5.25% to 5.6%	06/01/17	4,090,000
Series 1999A	4.0% to 5.0%	06/01/19	4,835,000
Series 2000A	5.125% to 5.75%	06/01/30	21,170,000
Plant Improvement Bonds			
Series 1971	5.4%	12/01/00	90,000
Parking Facilities Revenue Bonds Series 1995	4.75% to 5.00%	05/01/15	<u>7,290,000</u>
			93,150,000
<u>Component Unit</u>			
Revenue Bonds	6.2% to 8.2%	12/01/03	<u>835,000</u>
Total			<u>\$93,985,000</u>

The University receives interest subsidies from the U.S. Department of Education designated for revenue bonds and plant improvement bonds debt service. The various bond indentures restrict the use of particular revenue sources. State institution bonds are general obligation bonds of the State backed by the full faith, credit,

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES (CONTINUED)

Bonds Payable (Continued)

and taxing power of the State. Tuition paid to the University is restricted up to the amount of annual debt requirements for the payment of principal and interest on state institution bonds. Revenue received for dormitory and married student housing, parking facilities and any subsidies is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on revenue and parking facilities revenue bonds. Plant improvement bonds are retired from subsidies received and University deposits into the reserve fund accumulated with the State Treasurer.

The University purchased a bond insurance policy for the parking facilities revenue bonds - Series 1995 in lieu of establishing a debt service reserve fund. The insurance policy guarantees payment of the debt service reserve on behalf of the University for up to \$966,690 to the final maturity of the bonds. The University also purchased a bond insurance policy for each series of auxiliaries revenue bonds which guarantee payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of the bonds.

During fiscal year 2000, the University must maintain a debt service reserve equal to or greater than its highest remaining principle and interest payments. At June 30, 2000, the University issued revenue bonds in the amount of \$21,170,000. Related bond issue costs totaled \$12,570 and are recorded as expenditures in the unexpended plant funds subgroup. The proceeds were used to construct and make renovations to housing facilities. Related bond discounts totaled \$309,547 and are recorded in the retirement of indebtedness plant funds subgroup to be amortized over the life of the bonds using the straight-line method.

The bond documents outline certain covenant terms to secure the bonds. For the state institution bonds, the University must maintain its tuition fees at amounts necessary to meet annual debt service requirements. For revenue bonds, the University must generate net revenues available for debt service of not less than 100 percent of debt service payments due in each bond year. In addition, the University must establish and maintain debt service funds with the South Carolina State Treasurer for payment of principal and interest for all bonds. Also for the plant improvement bonds, the University must maintain a debt service reserve equal to or greater than its highest remaining principle and interest payments. At June 30, 2000, the University has debt service reserve requirements and balances on deposit of \$92,430 and \$215,158. The reserve is reported in the retirement of indebtedness plant funds subgroup.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES (CONTINUED)

Bonds Payable (Continued)

Certain of the University's bonds may be redeemed at a premium or at par prior to the mandatory redemption dates and final maturities at the option of the University. The bond redemption prices (expressed as a percentage of the principal redeemed) are as follows:

<u>Bond</u>	<u>Range</u>
State Institution Bonds - Series 1996B	2.0% from 04/01/06 through 03/31/07 1.0% from 04/01/07 through 03/31/08 Par from 04/01/08 through maturity
Revenue Bonds: Series 1996	1.0% from 06/01/06 through 05/31/07 Par from 06/01/07 through maturity
Series 1997	1.0% from 06/01/07 through 05/31/08 Par from 06/01/08 through maturity
Series 1999	1.0% from 06/01/09 through 05/31/10 Par from 06/01/10 through maturity
Series 2000	Par from 06/01/10 through maturity
Plant Improvement Bonds - Series 1971	1.0% through maturity
Parking Facilities Revenue Bonds - Series 1995	2.0% from 05/01/05 through 04/30/06 1.0% from 05/01/06 through 04/30/07 Par from 05/01/07 through maturity

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue, parking facilities and plant improvement bond obligations as of June 30, 2000, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 1,715,000	\$ 3,378,163	\$ 5,093,163
2002	1,720,000	3,289,612	5,009,612
2003	1,455,000	3,198,234	4,653,234
2004	1,540,000	3,119,196	4,659,196
2005	1,635,000	3,035,379	4,670,379
2006 through 2030	<u>53,395,000</u>	<u>37,984,406</u>	<u>91,379,406</u>
Total Obligations	<u>\$61,460,000</u>	<u>\$54,004,990</u>	<u>\$115,464,990</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES (CONTINUED)

Bonds Payable (Continued)

Amounts including interest required to complete payment of the state institution bonds as of June 30, 2000, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 2,705,000	\$ 1,646,707	\$ 4,351,707
2002	2,840,000	1,521,356	4,361,356
2003	2,985,000	1,365,681	4,350,681
2004	1,250,000	1,209,400	2,459,400
2005	1,320,000	1,121,900	2,441,900
2006 through 2016	<u>20,590,000</u>	<u>6,761,750</u>	<u>27,351,750</u>
Total Obligations	<u>\$31,690,000</u>	<u>\$13,626,794</u>	<u>\$45,316,794</u>

Receipts from tuition, matriculation fees, and other fees legally designated solely for the purpose of debt retirement are recorded directly in the retirement of indebtedness plant funds subgroup as student tuition and fees revenues. Mandatory transfers from auxiliary enterprises revenue for revenue bonds debt service are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

In prior years, the University defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. As a result because the bonds are considered defeased, the liability for the defeased bonds has been removed from the University's investment in plant funds subgroup and the trust account assets are not included in these financial statements. At June 30, 2000, \$3,780,000 (\$520,000 attributable to Coastal Carolina University) in state institution bonds and \$700,000 of parking facilities revenue bonds are considered defeased.

Bond Anticipation Notes

The University uses bond anticipation notes to temporarily finance capital additions and intends to refinance these obligations over a longer period of time in the future through permanent financing. Usually within a year, a long-term bond is issued to repay the bond anticipation notes. The funds to retire the outstanding notes will be obtained through certain stadium seat assessment fees and student fees, as well as additional temporary refinancing and permanent financing. The seat assessment fees are recorded as revenue directly in the retirement of indebtedness fund subgroup of the plant funds group.

Of the \$14,000,000 in bond anticipation notes outstanding at June 30, 1999, \$12,775,000 was refinanced. Athletic facilities revenue bond anticipation notes issued in February 2000 in the amount of \$12,775,000 and outstanding at June 30, 2000, are due in February 2001 and bear a net interest rate of 4.222 percent.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES (CONTINUED)

Summary of Current Year Expenditures

The University reported principal payments and interest and other charges on indebtedness related to bonds and bond anticipation notes for the year ended June 30, 2000, as follows:

	<u>Principal Payments</u>	<u>Interest Expenditures</u>
Bonds Payable	\$3,975,000	\$4,031,288
Bond Anticipation Notes	<u>1,225,000</u>	<u>461,769</u>
	<u>\$5,200,000</u>	<u>\$4,493,057</u>

Of the above bonds payable interest and other charges on indebtedness amount for the current year, \$12,809 is attributable to bond discount amortization. The University capitalized \$31,717 of interest expenditures as part of construction in progress.

Debt Service Limitation On State Institution Bonds

S.C. Code of Laws Section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees (as defined by Code Section 59-107-30) for the preceding fiscal year. Tuition fees for the fiscal year ended June 30, 1999, were \$7,164,129, which results in a legal annual debt service limit at June 30, 2000, of \$6,447,716. The annual debt service payments for the fiscal year ended June 30, 2000 were \$4,353,947.

Bonded Debt Attributable to Component Unit

On December 1, 1991, the Trust acquired a building known as Medical Park IV. The building is currently utilized by two of the departments which participate in the Practice Plan.

In conjunction with this acquisition, the Trust issued revenue bonds known as "University of South Carolina School of Medicine Educational Trust Revenue Bonds (Medical Park IV Medical Office Building Project) Series 1991".

Total Revenue Bonds Issued	\$1,125,000
Principal Payments Made Since Inception	<u>(290,000)</u>
Revenue Bonds Outstanding	835,000
Portion Due Currently	<u>(50,000)</u>
Long-term Portion	<u>\$ 785,000</u>

Principal paid and interest expense on the bonds payable were \$45,000 and \$59,943 for the year ended December 31, 1999. Interest rates range from 7.2 percent to 8.2 percent.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES (CONTINUED)

Bonded Debt Attributable to Component Unit (Continued)

Principal and interest payments for the five years subsequent to December 31, 1999, and thereafter, amount to the following.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 50,000	\$ 57,540	\$ 107,540
2001	50,000	54,340	104,340
2002	55,000	51,040	106,040
2003	60,000	47,640	107,640
2004	60,000	44,140	104,140
Thereafter	<u>560,000</u>	<u>165,385</u>	<u>725,385</u>
Total	<u>\$835,000</u>	<u>\$420,085</u>	<u>\$1,255,085</u>

Bonds maturing on or before December 1, 2001, are not subject to early redemption. Bonds maturing subsequent to that date are subject to early redemption at a specified premium at the option of the Trust with 45 days prior written notice.

These bonds are limited obligations of the Trust, with debt service to be paid solely from receipts derived from leasing the project.

As security for the bonds, the Trust has executed a Leasehold Mortgaging and Financing Agreement, as well as an Assignment of Leases, Rents and Profits for the benefit of bondholders. These agreements grant to bondholders a leasehold mortgage on the building as well as a security interest in the project revenues and provide for the establishment of an operating reserve. The Trust has established operating accounts which are maintained by the property management and leasing agent.

NOTE 5 - INSTALLMENT NOTES PAYABLE AND COMPONENT UNIT NOTES PAYABLE

Installment Notes Payable

In the current year, the University made borrowings under the State Treasurer's Office's Master Lease/Purchase Program. Capital asset acquisitions were financed by loans of \$429,550 in this fiscal year. At June 30, 2000, the University had two bank notes payable outstanding, as follows:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance</u>
Note dated March 1999	3.793%	March 2004	\$164,317
Note dated November 1999	5.359%	November 2006	429,550

Proceeds of \$214,119 from the March 1999 note were used to purchase telephone equipment. Proceeds from the November 1999 note were used to purchase a scoreboard for \$429,550. The notes are collateralized by these items. As required by the note agreements, the University must, at its own cost and expense, preserve and keep the equipment in good repair, working order and condition. Future payments on these notes payable are to be funded from unrestricted current funds.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 5 - INSTALLMENT NOTES PAYABLE AND COMPONENT UNIT NOTES PAYABLE (CONTINUED)

Installment Notes Payable (Continued)

The first note is payable in quarterly installments plus interest. The second note is payable in annual installments plus interest. Amounts including interest required to complete payment of the notes as of June 30, 2000, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 93,753	\$ 28,665	\$122,418
2002	98,149	24,270	122,419
2003	102,756	19,662	122,418
2004	95,781	14,833	110,614
2005	64,302	10,902	75,204
2006 and after	<u>139,126</u>	<u>11,281</u>	<u>150,407</u>
Total Obligations	<u>\$593,867</u>	<u>\$109,613</u>	<u>\$703,480</u>

Payments for fiscal year 2000 of \$47,215, of which \$7,186 represented interest, are reported as current funds expenditures.

In addition, in 1995, the University entered into an installment agreement to purchase a rare book collection (Matthew J. Bruccoli Collection of F. Scott Fitzgerald) for \$800,000 without interest. The installment note is payable in annual installments of \$60,000 through fiscal year 2005. Payments totaling \$60,000 in 2000 were made by the University (\$50,000) and the University of South Carolina Educational Foundation (\$10,000), a related party on behalf of the University. Interest expense has been imputed at 5.16 percent. The note is secured by the rare book collection. Payments for principal and interest for fiscal year 2000 were \$44,366 and \$15,634. These payments and the \$10,000 in gifts revenue from the Foundation were recorded in the retirement of indebtedness plant funds subgroup. The value of the \$300,000 liability (net of imputed interest) at June 30, 2000, was \$258,623.

Amounts including interest required to complete payment of the note as of June 30, 2000, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 46,655	\$13,345	\$ 60,000
2002	49,062	10,938	60,000
2003	51,594	8,406	60,000
2004	54,256	5,744	60,000
2005	<u>57,056</u>	<u>2,944</u>	<u>60,000</u>
Total Obligations	<u>\$258,623</u>	<u>\$41,377</u>	<u>\$300,000</u>

Notes Payable Attributable to Component Unit

On March 5, 1992, the Trust acquired a building known as Medical Park II. The building is currently utilized for the operations of six of the Departments participating in the Practice Plan, as well as outside entities.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 5 - INSTALLMENT NOTES PAYABLE AND COMPONENT UNIT NOTES PAYABLE (CONTINUED)

Notes Payable Attributable to Component Unit (Continued)

In conjunction with the acquisition, the Trust authorized and issued a series of notes known as the "University of South Carolina School of Medicine Educational Trust Revenue Notes (Medical Park II Office Building Project) Series 1992." These notes consist of the following:

	Balance Beginning <u>of Year</u>	Debt <u>Repaid</u>	Balance End of <u>Year</u>
(R-1) A tax-exempt note covering that portion of the purchase price which relates to the rental of space to Practice Plan. Original principal balance \$3,990,000. Payable in monthly installments of \$27,398, including interest at 7.175%.	\$3,572,866	\$ (73,301)	\$3,499,565
(R-2) A taxable refinancing note covering the difference between the balance of the prior loan on the property and the principal amount of the tax exempt note. Original principal balance \$669,958. Payable in monthly installments of \$6,018 including interest at 10.15%.	628,585	(7,968)	620,617
(R-3) A variable rate note covering the difference between the purchase price and the first two notes. Original principal balance \$1,040,042. Payable in monthly installments of \$3,095 plus interest at floating prime.	<u>789,312</u>	<u>(34,050)</u>	<u>755,262</u>
Total	<u>\$4,990,763</u>	<u>\$(115,319)</u>	<u>\$4,875,444</u>

Interest expense on these notes was \$372,975 for the year ended December 31, 1999.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 5 - INSTALLMENT NOTES PAYABLE AND COMPONENT UNIT NOTES PAYABLE (CONTINUED)

Notes Payable Attributable to Component Unit (Continued)

The notes matured on December 1, 1999. With the concurrence of the holder of the notes, management extended the maturity date through May 2, 2000. At maturity, management expects these notes will be retired with the proceeds of a new debt instrument. Management expects the new debt will bear a lower, more favorable rate of interest.

As security for the revenue notes, the Trust has executed a Leasehold Mortgaging and Financing Agreement, as well as an Assignment of Leases, Rents and Profits for the benefit of noteholders. These agreements grant to noteholders a leasehold mortgage on the building as well as a security interest in the project revenues and provide for the establishment of an operating reserve. The Trust has established operating accounts which are maintained by the property management and leasing agent.

NOTE 6 - LEASE OBLIGATIONS

Operating Leases

The University is obligated under various operating leases for the use of real property and equipment.

Future commitments for the operating leases having remaining noncancelable terms in excess of one year as of June 30, 2000, were as follows:

<u>Year Ending June 30</u>	<u>Operating Leases</u>	
	<u>Real Property</u>	<u>Equipment</u>
2001	\$ 266,697	\$ 60,237
2002	152,429	-
2003	105,500	-
2004	56,750	-
2005	42,500	-
2006 and after	<u>212,500</u>	<u>-</u>
Total Minimum Lease Payments	\$ <u>836,376</u>	\$ <u>60,237</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 6 - LEASE OBLIGATIONS (CONTINUED)

Operating Leases (Continued)

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2001 through 2031. These noncancelable operating leases include agreements between the University and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options for periods from 2001 to 2031 at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis.

Total operating lease expenditures in 2000 were \$961,820 for real property and \$62,858 for equipment. The University reports these costs in the applicable current funds functional expenditure categories.

Obligations Attributable to Component Units

The Trust acquired buildings known as Medical Park IV and Medical Park II in December 1991 and March 1992. Rent revenue is received from non-Practice Plan entities who occupy space in the two buildings. Additionally, the various operating units of the Trust and Practice Plan which utilize the building space transfer funds in lieu of rent. Rents are utilized by the Trust for debt service and operating expenses.

The Trust operates the two buildings for the benefit of the University's School of Medicine in the training of Clinical Practice Department students. The acquisitions were financed by issuance of revenue bonds and notes totaling \$6,825,000. The University owns title to the land and has a ground lease with the Trust which provides for annual rents ranging from \$64,460 to \$77,996 through 2011 and \$49,193 to \$59,523 from 2012 to 2025.

The land upon which the Medical Park II and Medical Park IV buildings are located is the property of the University of South Carolina School of Medicine and is being leased to the Trust as follows:

	<u>Medical Park II</u>	<u>Medical Park IV</u>	<u>Totals</u>
Term of Lease	33 years	20 years	
Termination Date	February 1, 2025	December 1, 2011	
Land Lease Payment			
2000	\$ 36,960	\$ 27,500	\$ 64,460
2001	36,960	30,250	67,210
2002	36,960	30,250	67,210
2003	40,656	30,250	70,906
2004	40,656	30,250	70,906
Thereafter	<u>1,003,707</u>	<u>224,125</u>	<u>1,227,832</u>
Total	<u>\$1,195,899</u>	<u>\$372,625</u>	<u>\$1,568,524</u>

Ground lease expense of \$64,460 was paid by the Trust to the University. The University included the rental income in unrestricted current funds.

The bond and note resolutions require the Trust to convey ownership of each building to the University at such time as all acquisition indebtedness has been retired.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 6 - LEASE OBLIGATIONS (CONTINUED)

Obligations Attributable to Component Units (Continued)

The Trust Operations Department as well as the Departments of Orthopedics, Obstetrics and Gynecology, Surgery, Internal Medicine, and Diagnostic Center have acquired certain office and medical equipment under capital lease arrangements. The following is a summary of capital lease obligations at December 31, 1999:

	<u>Clinics</u>	<u>Trust</u>	<u>Total</u>
Obligations under capital leases,			
Balance at December 31, 1998	\$462,338	\$54,518	\$516,856
Obligations acquired in current year	298,881	-	298,881
Repayments in current year	<u>(172,563)</u>	<u>(25,988)</u>	<u>(198,551)</u>
Obligations under Capital Leases,			
Balance at December 31, 1999	<u>\$588,656</u>	<u>\$28,530</u>	617,186
Obligations under capital leases,			
Current portion			<u>203,450</u>
Obligations under Capital Leases,			
Due after one year			<u>\$413,736</u>

Interest expense for capital leases was \$60,435 for the year ended December 31, 1999.

The following is a schedule by years of future minimum lease payments under capital lease payments together with the present value of net minimum lease payments as of December 31, 1999:

<u>Year Ending December 31:</u>	<u>Minimum Lease Payments</u>
2000	\$257,644
2001	182,427
2002	169,292
2003	118,473
2004	<u>21,811</u>
Total Minimum Lease Payments	749,647
Less Amounts Representing interest	<u>(132,461)</u>
Present Value of Net Minimum Lease Payments	<u>\$617,186</u>

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NOTE 7 - NONMANDATORY TRANSFERS

Tuition, fees, and revenues pledged for debt service and required to be deposited in the retirement of indebtedness funds subgroup remain in that subgroup until they are expended for debt service requirements or transferred by the State Treasurer. Such funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service as required by bond indentures and law.

For state institution bonds issued by the State of South Carolina on behalf of the University, the State Treasurer automatically transfers available funds into a general capital improvements funding account which the University reports in the unexpended plant funds subgroup. In fiscal year 2000, the University transferred \$3,837,514 for that purpose which is reported as a nonmandatory transfer. The unexpended balance in the general capital projects funding account of the unexpended plant funds subgroup is reported in unrestricted fund balance. During the current year, the University transferred \$2,173,451 within that subgroup from the general capital improvements funding account to finance specific capital projects. Unexpended balances in specific project accounts are reported in restricted fund balances.

For revenue bonds issued by the University, transfer of available funds in excess of required minimum balances is requested by the University to the State Treasurer. The University did not transfer any such funds in fiscal year 2000.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
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NOTE 7 - NONMANDATORY TRANSFERS (CONTINUED)

During fiscal year 2000, the University made the following nonmandatory transfers:

<u>From</u>	<u>FUND</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Unrestricted Current		Quasi-Endowment	\$ 1,118,515	Transfer of funds to quasi-endowment as authorized by Board.
Unrestricted Current		Unexpended Plant	11,611,967	Financing of construction projects.
Unrestricted Current		Retirement of Indebtedness	635,020	Funding of debt service.
Restricted Current		Unrestricted Current	532,229	Residual funds from fixed price contracts.
Restricted Current		Quasi-Endowment	894,713	Transfer of funds to quasi-endowment as authorized by Board.
Restricted Current		Unexpended Plant	291,943	Financing of construction projects.
Loan		Restricted Current	3,401	Federal Perkins Loan funds to FSEOG.
Loan		Unrestricted Current	3,018	Return of institutional matching funds.
Unexpended Plant		Unrestricted Current	3,875	Return of unspent funds (previously transferred to unexpended plant funds for capital projects) for operations and maintenance.
Retirement of Indebtedness		Unexpended Plant	3,837,514	Financing for capital improvements.

Within the unrestricted current funds, the University transferred \$3,459,882 from auxiliary enterprises to support educational and general activities. The University also transferred \$150,000 from educational and general to auxiliary enterprises for food services. These transfers, which are shown at gross on Exhibit C have been netted within unrestricted current funds on Exhibit B.

See Note 21 for transfers between component units.

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NOTE 8 - PENSION PLANS

University Employees

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 9.50 percent which included a 1.95 percent surcharge to fund retiree health and dental insurance coverage. Effective January 1, 2000, the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent to cover the cost of providing such services and the employer contribution rate became 9.71 percent. The University's actual contributions to the SCRS for the years ending June 30, 2000, 1999, and 1998, were \$15,315,000, \$14,527,000, and \$13,940,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$304,000 in the current fiscal year at the rate of .15 percent of compensation. In addition, the University paid the employer's 7.55 percent share (\$6,600) of pension costs for employees on educational leave with employees paying \$5,200.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement system. Generally all full-time employees whose principal duties are the preservation of public order or

UNIVERSITY OF SOUTH CAROLINA
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NOTE 8 - PENSION PLANS (CONTINUED)

University Employees (Continued)

the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 12.250 percent which, as for the SCRS, included the 1.95 percent surcharge. Effective January 1, 2000, the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent to cover the cost of providing such services and the employer contribution rate became 12.14 percent. The University's actual contributions to the PORS for the years ending June 30, 2000, 1999, and 1998, were \$251,000, \$234,000, and \$229,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$4,870 and accidental death insurance contributions of \$4,870 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each retirement plan. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 8 - PENSION PLANS (CONTINUED)

University Employees (Continued)

The Systems do not make separate measurements of assets and pension obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions and, effective July 1, 1998, to certain employees of the State's technical colleges who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 1.95 percent from July 1, 1999, to December 31, 1999, and 2.16 percent from January 1, 2000, to June 30, 2000, from the employer in fiscal year 2000.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$3,963,000 excluding the surcharge from the University as employer and \$3,149,000 from its employees as plan members. In addition, the University paid \$78,700 for group-life insurance coverage for these employees. The obligation for payment of benefits resides with the insurance companies.

An Act passed in the last General Assembly session, which had not been signed by the Governor as of June 30, 2000, will amend Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2000, with some provisions effective January 1, 2001. The amendment will enact the Teacher and Employee Retention Incentive Program, reduce from thirty to twenty-eight the years of creditable service required to retire at any age without penalty and make other changes to SCRS.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 8 - PENSION PLANS (CONTINUED)

Component Units

The Trust provides a defined contribution plan covering all faculty participants in the Practice Plan. The contribution rate is determined by the Trust and is 10 percent of eligible compensation up to statutory limits. After completion of three years of service, benefits are fully vested. Contributions for the years ended December 31, 1999 and 1998 amounted to \$923,329 and \$818,941, respectively are included as a component of personal services and related expenses.

NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 20,100 State retirees meet these eligibility requirements.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the approximate amount of \$14,600,000 for the year ended June 30, 2000. As discussed in Note 8, the University paid approximately \$5,302,000 applicable to the 1.95 percent surcharge for July 1, 1999, through December 31, 1999, and to the 2.16 percent surcharge for January 1, 2000, through June 30, 2000, included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

In addition, the State General Assembly periodically directs the Retirement Division to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 10 - DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State appropriated funds from unspent fiscal year 1998-1999 State General Fund appropriations for contributions to deferred compensation accounts of eligible state employees whose salaries are funded from State General Fund appropriations. In addition, the 2000 Appropriation Act required State agencies and institutions to match certain deferred compensation plan contributions by employees whose salaries are funded from other applicable revenue sources. The appropriated deferred compensation match was limited to \$300. To be eligible an employee must have met the following eligibility requirements:

1. The employee was a permanent full-time State employee for 24 continuous months as of July 1, 1999, and was an employee on the date of distribution and
2. The employee established a deferred compensation account with annual contributions equal to the match (this requirement is not required for employees earning less than \$20,000).

In April 2000 the agency made contributions from State appropriations and other applicable funding sources of \$118 in total to the deferred compensation account of each eligible State employee for a total of \$303,024 for all of the University's employees.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 11 - INVENTORIES

Inventories are valued at cost except for bookstores and University Press inventories which are valued at the lower of cost or market. The following is a summary by inventory category of cost determination method and value at June 30, 2000:

<u>Category</u>	<u>Method</u>	
Bookstores	First-in, first-out	\$1,205,978
Maintenance	Last-in, first-out	271,947
Central Supply	First-in, first-out	56,558
University Press	First-in, first-out	466,649
Others	Various	<u>194,117</u>
		<u>\$2,195,249</u>

NOTE 12 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account for a multi-campus system which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund subgroup and by campus. At June 30, 2000, restricted current funds owed unrestricted current funds \$7,911,875.

During fiscal year 1997, the University advanced funds from the endowment funds to the unexpended plant funds subgroup to purchase/construct a capital asset for \$1,000,000. Upon completion of the project, the asset was capitalized in the investment in plant funds subgroup and the related advance transferred to that subgroup. The advance is payable in annual installments through fiscal year 2006 at an annual interest rate of 7.5%. The repayment is recorded as an expenditure in unrestricted current funds - auxiliary enterprises and as a retirement of indebtedness addition in the investment in plant funds subgroup. A principal payment of \$85,000 and interest payment of \$58,125 were made in fiscal year 2000. The outstanding balance of the advance at June 30, 2000, is \$690,000.

Component Units

As of December 31, 1999, the amount due to the Trust support fund from the Practice Plan operations fund was \$1,760,377. Within the Trust, \$422,514 was due from the support fund to the operations fund.

In the separately issued component unit financial statements and the condensed component unit statements presented in Note 21 such amounts are separately reported on the balance sheet in asset and liability accounts which identify the individual source and recipient funds of each component unit. On the University's balance sheet, these balances are eliminated.

Within the Trust's funds, the \$31,496 due to the support fund for the Dean's academic enhancement fund from the building and equipment fund consists of the funds advanced by the Dean's fund toward the acquisition of certain property. Pursuant to various agreements entered into in connection with the issuance of certain revenue bonds and notes, project revenues will be used to reimburse the Dean's fund after operating expenses are paid and debt service and contingencies are provided for.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 13 - STUDENT LOANS, ACCOUNTS, AND PATIENTS RECEIVABLES

The University has the following significant accounts receivable for which the detail is not displayed on the balance sheet.

Unrestricted Current Funds

Educational and General

Student and Sponsor Receivables	\$3,939,021
University Press	428,325
Computer Services	15,218
Employee Travel Advances	36,351
Other	258,260

Auxiliary Enterprises

Housing	331,565
Bookstores	402,403
Parking	427,716
Athletics	461,917
Faculty House	174,976
Other	<u>267,896</u>

\$6,743,648

Agency Funds

EPSCOR	\$ 178,783
Small Business Development Center	185,860
US Department of Justice Legal Education	534,439
SC Business Partnership Foundation	113,605
National Advocacy Center	935,064
Other	<u>53,987</u>

\$2,001,738

With minor exceptions, loan losses for student loan receivables and various accounts receivable are established based upon losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 2000, the allowances for student loans receivable in loan funds and accounts receivable in unrestricted current funds are valued at \$903,788 and \$487,000 respectively.

Component Units

The clinical entities, through their affiliation with a hospital, which serves as a regional medical and trauma center, provide medical services to indigent patients not covered under insurance or governmental programs. Charges to patients participating in Medicare and Medicaid programs and substantially all charges to patients having medical insurance are adjusted by third-party payers. A percentage of privately paying patients do not meet their obligations.

Management adjusts patient charges to their estimated net realizable value through a valuation allowance. Adjustments related to indigent care and third-party payers are recorded as reductions of patient service revenue. Adjustments related to bad debts of privately paying patients are recorded as a provision for uncollectible accounts expense.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 13 - STUDENT LOANS, ACCOUNTS, AND PATIENTS RECEIVABLES (CONTINUED)

Component Units (Continued)

For the year ended December 31, 1999, patient accounts receivable, net consist of:

Adjusted Patient Charges	\$3,438,916
Less, Estimated Uncollectible Charges and Waivers of Balances Due	<u>(559,364)</u>
<i>Patient Accounts Receivable, Net</i>	<u>\$2,879,552</u>

The allowance for uncollectible charges applied to reduce adjusted patient charges to net realizable value at December 31, 1999, is determined by each component unit based on experience.

NOTE 14 - CONSTRUCTION COSTS AND COMMITMENTS

The University's accumulated costs at June 30, 2000, for projects that are under construction or in the planning stage that are to be capitalized upon completion total approximately \$17,928,000. Costs to complete these projects are estimated to be approximately \$90,706,000 and the projects are expected to be completed over the next several years.

The University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs and/or renovations to existing facilities. Costs incurred to date and the estimated costs to complete on these projects amount to approximately \$8,682,000 and approximately \$11,720,000 at June 30, 2000.

At June 30, 2000, the University held commitments with various contractors relating to all projects of approximately \$22,011,000. The University anticipates the funding of these projects out of current and future bond issues, capital improvement bond proceeds, gifts, and federal funds for use on specific projects.

NOTE 15 - DEPOSITS AND INVESTMENTS

Most deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain of the University's deposits and investments are deposited with or managed by financial institutions and brokers. Cash and investments of the University's component units are not under the State Treasurer's control.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$110,214,190	Cash on Hand	\$ 132,345
Investments	10,185,467	Deposits Held by State	
		Treasurer	105,303,270
		Other Deposits	132,087
		Component Unit Deposits	
		Discrete Presentation	4,286,120
		Blended Presentation	360,368
		Investments Held by State	
		Treasurer	1,464,611
		Other Investments	2,634,753
		Component Unit	
		Investments- Discrete	
		Presentation	<u>6,086,103</u>
	<u>\$120,399,657</u>		<u>\$120,399,657</u>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2000, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

As disclosed in Note 4, retirement of indebtedness plant funds include \$92,430 restricted cash held by the State Treasurer for debt service reserve funds as required by the bond indentures.

Other Deposits

The University's other deposits at year-end were entirely covered by federal depository insurance for deposits with banks. Of the total of these deposits the University's loan funds include \$25,000 restricted cash for a loan participation deposit.

Investments Held by State Treasurer and Other Investments

The University's investments in the endowment and similar funds include common stock held by the State Treasurer for the University which is legally restricted. The University has other endowment investments which are managed by financial institutions or brokers as specified by the donors. Purchased investments are valued at fair value. Investments received from donors are valued at the lesser of their fair value on the date received or fair value as of fiscal year-end.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Held by State Treasurer and Other Investments (Continued)

Purchases and sales are accounted for on the transaction date. Realized and unrealized gains and losses on investments have been recorded. Gains and losses on securities transactions are reported at net separately in the endowment and similar funds. Ordinary earnings are recorded on an accrual basis.

The University's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the University's name. Investments which do not meet the definition of investment securities are listed below but are not classified by risk category. A summary of investments at June 30, 2000, by category of credit risk follows:

	<u>Category</u>		<u>Fair</u>
	<u>1</u>	<u>3</u>	<u>Value</u>
Common Stock Held by State Treasurer	\$1,463,311	\$ -	\$1,463,311
Common Stocks Held by Others	-	559,636	559,636
U. S. Government Securities	-	172,750	172,750
Corporate Bonds	-	74,635	74,635
Pooled Investments*	<u>-</u>	<u>1,823,303</u>	<u>1,823,303</u>
Total Categorized Investments	<u>\$1,463,311</u>	<u>\$2,630,324</u>	4,093,635
Miscellaneous			
Mortgage			4,429
Other - Held by State Treasurer			<u>1,300</u>
Total Investments			<u>\$4,099,364</u>

*Consist of marketable securities and government debt instruments.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

Component Units' Deposits

The Trust and the Practice Plan cash and cash equivalents balance includes cash on deposit with financial institutions of \$2,430,876 and deposits in money market funds of \$1,855,244. Of these amounts, approximately \$2,713,000 exceeded the limits of federal depository insurance (FDIC). Of the amount exceeding federal depository insurance limits, \$1,745,000 was on deposit with a bank which has agreed to support balances to their full extent. The bank's management reviews the total of the Trust's balances on a daily basis and pledges marketable debt securities held in the bank's own portfolio in amounts approximating the uninsured excess. All other balances exceeding federal depository insurance limits are not subject to such an agreement. Management does not believe that significant credit risk is associated with its banking relationships.

The difference between the reported book balance and the bank balance of deposits is comprised of in-transit reconciliation items at fiscal year-end.

The Faculty House cash and cash equivalents account includes cash on deposit with banks of \$220,661 and certificates of deposit of \$139,707. Of the \$360,368 total, approximately \$60,000 exceeded the FDIC limits.

Deposits with financial institutions are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name. (Not held by the bank.)
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.)

Depository credit risk information pertaining to the categorization by bank balance was not reported in the separately issued component unit financial statements for the Trust and the Practice Plan. Those financial statements also did not disclose whether the money market funds were on deposit with a financial institution or another entity. Therefore, this note does not present that information as required by governmental GAAP.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

Component Unit's Investments

Investments of the component unit (the Trust) consist primarily of U. S. Treasury notes and bonds and corporate common stock. Investments in marketable debt and equity securities are carried at fair value. The Trust has the following investments:

	<u>Cost</u>	<u>Fair Value</u>
Marketable Debt Securities:		
U.S. Treasury Obligations due		
Within one year	\$ 41,513	\$ 39,707
After one year, within five	436,728	427,646
After five years, within ten	398,840	369,974
Marketable Equity Securities:		
Common Stock	1,826,108	2,323,231
Mutual Funds	1,111,542	1,181,466
Certificates of Deposit maturing after three months	<u>1,744,079</u>	<u>1,744,079</u>
Total	<u>\$5,558,810</u>	<u>\$6,086,103</u>

Common stocks, mutual funds, and U.S. Treasury obligations are held by an agent of the Trust in the Trust's name and, therefore, are in investment credit risk category 1. Classification as to negotiability for certificates of deposit is not reported in the separately issued component unit financial statements. Non-negotiable certificates of deposit should be classified as deposits and negotiable certificates of deposit should be classified as investments. This note does not present that information as required by governmental GAAP.

NOTE 16 - PLEDGES OF GIFTS

The University recognizes revenue from Gamecock Club pledges when collected. Such contributions totaling approximately \$7,241,000 in cash were collected in 2000 and recorded in the unrestricted current funds - auxiliary enterprises as gifts revenue. Outstanding pledges at June 30, 2000, amounted to approximately \$1,939,000. Pledges are associated with the Gamecock Club membership drive at the University and are due in the next fiscal year. The pledges receivable are not included in the financial statements, nor has the amount of uncollectible pledges been estimated, because it is not practicable to estimate the net realizable value of these pledges.

NOTE 17 - RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the University of South

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 17 - RELATED PARTIES (CONTINUED)

Carolina Development Foundation; the Lancaster County Educational Foundation, Inc.; and the South Carolina Research Institute. The financial statements of these entities are audited, except for those indicated as unaudited, by independent auditors retained by them. The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties.

In conjunction with its implementation of GASB Statement No.14, each fiscal year thereafter, management reviews its relationships with the entities described in this note. The University excluded these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, some or all of these parties may become component units of the University and/or part of the financial reporting entity.

The University of South Carolina Educational Foundation is an eleemosynary corporation operating for the benefit and support of the University of South Carolina. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. During the year, the University received from the Foundation funds for scholarships, awards and stipends to students, faculty and administrative staff; reimbursement for computer and personnel services provided by the University; and interest earnings on notes receivable from the Foundation (see Note 23).

The University of South Carolina Business Partnership Foundation is a nonprofit corporation which, among other purposes, was formed to bring together representatives of business and government to assist them in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. During the year, the University received funds for scholarships, reimbursement of personal service and fringe benefit and other administrative costs from the Foundation.

The Lancaster County Educational Foundation, Inc., is an eleemosynary corporation operating for the benefit and support of the University of South Carolina at Lancaster. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. During the year, the University received from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the University.

The Greater University of South Carolina Alumni Association was formed to serve the students after they graduate. The Alumni Association's objectives are providing job placement and counseling, communicating the aspirations and needs of the University, helping graduates keep in touch with one another, and providing programs of continuing education. During the year, the University received funds for scholarships from the Association and provided office and meeting space at no cost to the Association.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
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NOTE 17 - RELATED PARTIES (CONTINUED)

The Carolina Piedmont Foundation, Inc., was incorporated under the laws of South Carolina to establish and promote a permanent foundation to accept gifts for charitable, benevolent, cultural, and education purposes for the exclusive use and benefit of the University of South Carolina at Spartanburg. During the year, the University received funds from the Foundation for scholarships and reimbursement for personnel services provided by the University.

The University of South Carolina Development Foundation is a South Carolina eleemosynary corporation which operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the University. During the year, the University received funds for rent and reimbursement for computer and personnel services provided by the University from the Foundation. Also during the year, the University paid to the Foundation funds for the lease of aircraft and real property and for research programs.

The South Carolina Research Institute (SCRI) is a not-for profit research foundation which exists exclusively to facilitate the University of South Carolina's teaching, research and public service missions. It will support research programs of clear relevance to the state and nation. The research areas will focus on the environment, new technologies, economic development, health sciences and social issues. SCRI receives research funding from private sources and also competes for federal funds. During fiscal year 2000, the University received funds from SCRI for research.

Various transactions occur between the University and these related parties. A summary of these transactions for the year ended June 30, 2000, follows:

Funds Received from Related Parties

Carolina Piedmont Foundation	\$ 692,656
University of South Carolina Development Foundation	325,226
University of South Carolina Business Partnership Foundation	304,475
University of South Carolina Educational Foundation	8,721,058
Greater University of South Carolina Alumni Association	1,014,431
Lancaster County Educational Foundation	1,233,676
South Carolina Research Institute (SCRI)	<u>9,350,637</u>
	<u>\$21,642,159</u>

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NOTE 17 - RELATED PARTIES (CONTINUED)

The majority of SCRI revenues are recorded by the University as federal grants and contracts revenues and the majority of revenues from the other related parties are recorded as gifts revenue in restricted current funds. Restricted current funds federal grants and contracts receivables include \$3,692,976 due from SCRI at June 30, 2000.

Funds Paid to Related Parties

University of South Carolina Development Foundation	\$7,187,354
University of South Carolina Educational Foundation	28,220
University of South Carolina Business Partnership Foundation	4,000
Carolina Piedmont Foundation	44,557
Lancaster County Educational Foundation	6,033
Greater University of South Carolina Alumni Association	<u>7,188</u>
	<u>\$7,277,352</u>

The University paid to the University of South Carolina Development Foundation \$6,971,007 for the purchase of land. This expenditure is reported in the unexpended plant funds subgroup. The University has a remaining commitment of \$2,879,000 for purchasing additional land.

The latest available audited financial statements of these related parties are summarized on the following pages except for Lancaster County Educational Foundation, Inc., whose unaudited statements are summarized.

Other Related Party - SCUREF

The South Carolina Universities Research and Education Foundation (SCUREF) was incorporated in November 1988 under the laws of the State of South Carolina. Its purpose is to operate as a support organization primarily to provide such assistance as may be requested by Clemson University, the Medical University of South Carolina, South Carolina State University, and/or the University of South Carolina (collectively referred to as the "member universities") in their separate and joint efforts to perform research. During fiscal year 2000, the University received \$2,292,060 from SCUREF for research. The majority of SCUREF revenues are recorded by the University as federal grants and contracts revenue in restricted current funds. The University recorded \$657,154 due from SCUREF as restricted current funds, federal grants and contracts receivable.

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June 30, 2000

NOTE 17 - RELATED PARTIES (CONTINUED)

	June 30, 1999 UNIVERSITY OF SOUTH CAROLINA DEVELOPMENT FOUNDATION	December 31, 1999 LANCASTER COUNTY EDUCATION FOUNDATION, INC. UNAUDITED	June 30, 1999 CAROLINA PIEDMONT FOUNDATION, INC.	June 30, 1999 UNIVERSITY OF SOUTH CAROLINA BUSINESS PARTNERSHIP FOUNDATION	June 30, 1999 UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION	June 30, 1999 GREATER UNIVERSITY OF SOUTH CAROLINA ALUMNI ASSOCIATION	June 30, 1999 SOUTH CAROLINA RESEARCH INSTITUTE
Total Assets	<u>\$ 37,178,787</u>	<u>\$ 3,441,647</u>	<u>\$ 5,845,855</u>	<u>\$ 16,605,432</u>	<u>\$ 195,839,174</u>	<u>\$ 5,608,729</u>	<u>\$ 2,505,225</u>
Net Assets and Fund Balances							
Net Assets							
Unrestricted, Designated	\$ 15,433,030	\$ -	\$ -	\$ 2,410,231	\$ 1,650,168	\$ -	\$ -
Unrestricted	12,978,549	371,972	1,150,007	516,697	41,346,363	2,726,591	796,341
Temporarily Restricted	1,184,441	-	1,564,033	6,927,910	56,689,524	1,590,168	-
Permanently Restricted	3,246,014	3,060,750	1,775,716	6,357,830	77,727,315	-	-
Total Net Assets	<u>\$ 32,842,034</u>	<u>\$ 3,432,722</u>	<u>\$ 4,489,756</u>	<u>\$ 16,212,668</u>	<u>\$ 177,413,370</u>	<u>\$ 4,316,759</u>	<u>\$ 796,341</u>
Unrestricted Net Assets							
Total Revenue and Support	\$ 4,030,972	\$ 132,088	\$ 1,268,224	\$ 4,474,893	\$ 9,526,652	\$ 2,541,649	\$ 7,066,769
Total Expenses	2,768,618	18,589	1,326,591	4,332,014	8,792,921	1,696,498	6,578,978
Increase (Decrease) in Unrestricted Net Assets	<u>1,262,354</u>	<u>113,499</u>	<u>(58,367)</u>	<u>142,879</u>	<u>733,731</u>	<u>845,151</u>	<u>487,791</u>
Temporarily Restricted Net Assets							
Total Revenue and Support	620,558	-	(55,043)	1,737,061	11,400,374	(313,450)	-
Total Expenses and Transfers	1,479,204	-	-	-	-	-	-
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(858,646)</u>	<u>-</u>	<u>(55,043)</u>	<u>1,737,061</u>	<u>11,400,374</u>	<u>(313,450)</u>	<u>-</u>
Permanently Restricted Net Assets							
Total Revenue and Support	14,305	1,864,274	95,939	120,709	16,711,352	-	-
Total Expenses and Transfers	-	4,616,859	-	-	-	-	-
Increase (Decrease) in Permanently Restricted Net Assets	<u>14,305</u>	<u>(2,752,585)</u>	<u>95,939</u>	<u>120,709</u>	<u>16,711,352</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets	<u>\$ 418,013</u>	<u>\$ (2,639,086)</u>	<u>\$ (17,471)</u>	<u>\$ 2,000,649</u>	<u>\$ 28,845,457</u>	<u>\$ 531,701</u>	<u>\$ 487,791</u>
Net Cash Provided by (Used) in Operating Activities	\$ (635,407)	\$ -	\$ (321,541)	\$ (1,250,314)	\$ (1,401,695)	\$ 709,910	\$ 198,922
Net Cash Provided by (Used) in Investing Activities	(3,330,176)	-	(17,384)	(674,450)	(25,643,618)	(550,391)	-
Net Cash Provided by (Used) in Financing Activities	3,390,504	-	70,932	2,998,615	27,968,688	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(575,079)</u>	<u>-</u>	<u>(267,993)</u>	<u>1,073,851</u>	<u>923,375</u>	<u>159,519</u>	<u>198,922</u>
Cash and Cash Equivalents, July 1	<u>820,932</u>	<u>-</u>	<u>341,273</u>	<u>802,954</u>	<u>165,389</u>	<u>792,103</u>	<u>146,681</u>
Cash and Cash Equivalents, June 30	<u>\$ 245,853</u>	<u>\$ -</u>	<u>\$ 73,280</u>	<u>\$ 1,876,805</u>	<u>\$ 1,088,764</u>	<u>\$ 951,622</u>	<u>\$ 345,603</u>

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June 30, 2000

NOTE 18 - TRANSACTIONS WITH STATE ENTITIES

The University has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking, investment, and bond trustee services from the State Treasurer; legal services from the Attorney General; and records storage from the Department of Archives and History.

Other services received at no cost from the various offices of the State Budget and Control Board include retirement plans administration, insurance plans administration, grants services, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plans contributions, surplus property disposal fees, insurance coverage, office supplies, printing, and telephone and interagency mail services. Significant payments were also made to other agencies for unemployment and workers' compensation coverage for employees. Payments were also made to South Carolina Educational Television for use of parking facilities during stadium events. The amounts of 2000 expenditures applicable to these transactions are not readily available.

The University provided no services free of charge to other State agencies during the fiscal year; however, the University provided data processing services to various State agencies for fees which totaled \$489,078. The University received approximately \$6,006 from Coastal Carolina University for providing certain administrative services. These amounts are reported as revenue from sales and services of educational and other activities. As subrecipient, the University received federal grant funds from various State agencies.

NOTE 19 - CONTINGENCIES AND LITIGATION

The University is involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including breach of contract, equal pay, personal injury, invasion of privacy, medical malpractice, and negligence. In some of these cases, the remedies sought or damages claimed are substantial. In the opinion of counsel, the outcome of the legal proceedings and claims is not expected to have a material adverse effect on the financial position of the University. Because the risk of material loss in excess of insurance coverage is unlikely, a loss liability has not been recorded.

The South Carolina Department of Revenue is a defendant in a class action lawsuit challenging the constitutionality and administration of the State's Debt Setoff Act. An order was issued in February finding that numerous State agencies and political subdivisions had failed to give proper notice prior to setting off debts against the debtor's income tax refunds. However, an appeal and other proceedings are pending. The University, while not named as a defendant in the lawsuit, collected debts pursuant to the Debt Setoff Act. If the order is upheld, the loss could be \$366,619 to the University. In such a case, the University would seek collection from the original debtors.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 19 - CONTINGENCIES AND LITIGATION (CONTINUED)

The various federal programs administered by the University for fiscal year 2000 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

NOTE 20 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

Accounting principles include not only accounting principles and practices but also the methods of applying them.

Effective July 1, 1999, the University changed the fund classification of its compensated absences liability for certain employees contracted to work solely for the Clinical Faculty Practice Plan (Practice Plan). This liability and the related expenditures were previously reported in the unrestricted current funds. Management has determined that the nature of the agreements and the relationship between the University and the Practice Plan are such that the liability meets the applicable requirements for presentation in restricted current funds in accordance with GASB Technical Bulletin 92-1. That guidance provides that compensated absences may be charged to restricted current funds when all of the following three criteria are met.

- It is expected that the restricted current fund will be reimbursed by grant proceeds for the amount of the compensated absence liability.
- Salary expenditures related to compensated absences are recorded in the restricted current fund.
- Neither a legal restriction nor a contractual restriction precludes the entity from charging the compensated absences expenditure to the restricted current fund.

Consequently, the University recorded in the restricted current fund a compensated absences liability of \$746,014 at June 30, 2000 and a compensated absences expenditure (in the Public Service functional expenditure category) of \$102,056 for the year then ended. The University also restated its beginning fund balance. The following table summarizes the changes as of July 1, 1999.

	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Unrestricted Current Funds:			
Accrued Compensated Absences	\$17,538,460	\$(643,958)	\$16,894,502
Public Service Expenditures	15,160,333	(128,254)	15,032,079
Fund Balance	46,701,466	643,958	47,345,424
Restricted Current Funds:			
Accrued Compensated Absences	-	643,958	643,958
Grants and Contracts			
Receivable - Other	3,757,510	643,958	4,401,468
Public Service Expenditures	36,081,489	128,254	36,209,743

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 20 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

Effective July 1, 1999, the University corrected an error in fund classification for an advance owed by the investment in plant funds subgroup to the endowment funds. Previously the University reported a nonmandatory transfer from unrestricted current funds - auxiliary enterprises to the investment in plant funds subgroup. This reporting treatment is incorrect because nonmandatory transfers move liquid resources and the investment in plant funds subgroup does not account for liquid resources. Consequently, the University recorded the funding of the advance by charging expenditures in unrestricted current funds - auxiliary enterprises and reporting an addition to the investment of plant funds subgroup as retirement of indebtedness. This correction did not have an effect on the net increase (decrease) in fund balance for the year. The following table summarizes the changes as of July 1, 1999.

	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Unrestricted Current Funds:			
Non-Mandatory Transfer	\$(17,176,164)	\$ 80,000	\$(17,096,164)
Auxiliary Enterprises			
Expenditures	53,278,270	80,000	53,358,270
Investment In Plant Funds			
Subgroup:			
Non-Mandatory Transfer	80,000	(80,000)	-
Retirement of Indebtedness	5,810,189	80,000	5,890,189

Effective July, 1, 1999, the University adopted *NACUBO Advisory Report 99-1 Accounting and Reporting for Nongovernmental Grants and Contracts and Gifts*, which modifies the *Financial Accounting and Reporting Manual for Higher Education (FARM)*. In previous years gifts, grants, and contracts were reported together in one revenue account. The two classifications have been created to provide better disclosure and accountability for resources that are a result of donor activity and resources that are a result of acquiring grants and contracts from non-governmental entities including individuals and other private sources. This change did not have an effect on the net increase (decrease) in fund balance for the current year in any fund group/subgroup.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 20 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

The following table summarizes the changes as of July 1, 1999.

	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Unrestricted Current Funds:			
Private Gifts, Grants, and Contracts	\$14,128,553	\$(14,128,553)	\$ -
Non-Governmental Grants and Contracts-Restricted	-	1,545,187	1,545,187
Private Gifts	-	12,583,366	12,583,366
Restricted Current Funds:			
Grants and Contracts Receivable:			
Other	3,757,510	(3,757,510)	-
Local	-	67,670	67,670
Non-Governmental	-	3,549,925	3,549,925
Private Gifts Receivable	-	139,915	139,915
Private Gifts, Grants, and Contracts-Restricted	26,501,709	(26,501,709)	-
Non-Governmental Grants and Contracts-Restricted	-	21,695,725	21,695,725
Private Gifts-Restricted	-	4,805,984	4,805,984

Effective July 1, 1999, the University adopted NACUBO Advisory Report 99-6 *Reporting Safety and Security Expenses by Higher Education which modifies the FARM*. Safety and security expenditures are now reported in the current funds functional expenditure category reported in operation and maintenance of plant. In previous years, such expenditures were reported in institutional support and academic support categories. This change did not have an effect on the net increase (decrease) in fund balance for the current year in either current fund. The University reported safety and security expenditures in operations of maintenance and plant of \$4,622,807 for the year ended June 30, 2000. For the year ended June 30, 1999, safety and security expenditures of \$1,176,549 and \$3,170,056 were reported in academic support and institutional support, respectively.

Effective July 1, 1999, the University adopted NACUBO Advisory Report 99-7 *Accounting and Reporting for Capitalization of Software* which modifies the FARM. This report adopted AICPA Statement of Position 98-1 *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* for public not-for-profit higher education institutions. Note 1 describes the University's policy for capitalizing computer software developed or obtained for internal use. The University has no capitalized computer software as of June 30, 2000.

Effective July 1, 1999, the University adopted AICPA Statement of Position 98-2 *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising* which establishes financial accounting standards for accounting for the costs of joint activities. Previously the University reported costs of joint activities as expenditures in the functional categories where the joint activities occurred. Because these activities are incidental to the University's programs, expenditures for the year ended June 30, 1999, do not require a restatement adjustment. This change did not have an effect on the net decrease in fund balance for the current year. Note 1 describes the reporting for costs of fund-raising activities.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 21 - DISCRETELY PRESENTED COMPONENT UNITS

As of June 30, 2000, the discretely presented component units, the Trust and the Practice Plan, owe the University \$1,450,710 for the reimbursement of salary, fringe benefit, and other operating costs. The University reports the receivable in restricted current funds as "Grants and Contracts Receivable - Nongovernmental." There is no related liability reported in the "Component Units" column of the University's balance sheet because the University and component units have different fiscal year-ends. At December 31, 1999, the Trust and Practice Plan owed the University \$688,000 for salary reimbursements which is reported in the component units' financial statements as accounts payable. In fiscal year 2000, the University received rental income of \$64,460 from the component units which is included in unrestricted current funds and reimbursements of \$9,380,421 for salary and fringe benefit costs and \$565,518 for other operating costs which are reported in non-governmental grants and contracts in restricted current funds for the year ended June 30, 2000. The Trust records the reimbursements as compensation and contributions expenses.

Contributions expense of the Trust for 1999 included the following payments to the University and its related parties:

To the University of South Carolina School of Medicine in support of faculty and staff appointments and related operational costs	\$ 961,939
To the University of South Carolina in support of its various programs	281,705
To the University of South Carolina Educational Foundation in support of School of Medicine programs, development, and activities	63,000

The following presents condensed financial statements as of and for the year ended December 31, 1999, for each of the discretely presented component units blended in the primary entity.

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NOTE 21 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Balance Sheet, December 31, 1999

	Trust				Practice Plan				Interfund Transactions	Totals (Memorandum Only)*
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total			
ASSETS										
Current Assets:										
Cash and Cash Equivalents	\$ -	\$ 2,008,084	\$ 669,082	\$ 2,677,166	\$ 1,608,954	\$ -	\$ 1,608,954	\$ -	\$ -	4,286,120
Investments	-	4,342,024	1,744,079	6,086,103	-	-	-	-	-	6,086,103
Patient Accounts Receivable - Net	-	-	-	-	2,879,552	-	2,879,552	-	-	2,879,552
Accrued Interest Receivable	21,864	-	-	21,864	-	-	-	-	-	21,864
Other Receivables	-	22,000	2,107	24,107	1,330,208	-	1,330,208	14,021	-	1,368,336
Prepaid Items	-	48,530	-	48,530	36,244	-	36,244	-	-	84,774
Due from Practice Plan	-	1,760,377	-	1,760,377	-	-	-	(1,760,377)	-	-
Due from (to)										
Trust Support Fund	422,514	(422,514)	-	-	-	-	-	-	-	-
Due from Trust Building and Equipment Fund	-	31,496	-	31,496	-	-	-	(31,496)	-	-
Total Current Assets	444,378	7,789,997	2,415,268	10,649,643	5,854,958	-	5,854,958	(1,777,852)	-	14,726,749
Property:										
Buildings	-	-	7,149,600	7,149,600	-	-	-	-	-	7,149,600
Building Improvements	-	-	1,128,198	1,128,198	-	1,473,607	1,473,607	-	-	2,601,805
Furniture and Office Equipment	-	-	781,991	781,991	-	1,946,665	1,946,665	-	-	2,728,656
Medical Equipment	-	-	-	-	-	2,505,551	2,505,551	-	-	2,505,551
Accumulated Depreciation	-	-	(2,050,902)	(2,050,902)	-	(3,130,831)	(3,130,831)	-	-	(5,181,733)
Net Property	-	-	7,008,887	7,008,887	-	2,794,992	2,794,992	-	-	9,803,879
Other Assets:										
Unamortized Loan Costs	-	-	16,831	16,831	-	-	-	-	-	16,831
Total Assets	\$ 444,378	\$ 7,789,997	\$ 9,440,986	\$ 17,675,361	\$ 5,854,958	\$ 2,794,992	\$ 8,649,950	\$ (1,777,852)	\$ -	24,547,459

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 21 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Balance Sheet, December 31, 1999, (Continued)

	Trust				Practice Plan					
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total		Interfund Transactions	Totals (Memorandum Only)*
LIABILITIES AND FUND BALANCES										
Current Liabilities:										
Accounts Payable	\$ 27,080	\$ 191,559	\$ 83,123	\$ 301,762	\$ 1,326,511	\$ -	\$ 1,326,511	\$ -	\$ -	\$ 1,628,273
Accrued Interest Payable	-	-	5,000	5,000	-	-	-	-	-	5,000
Accrued Compensated Absences	26,348	12,458	-	38,806	542,343	-	542,343	-	-	581,149
Accrued Retirement Contribution Payable	-	39,470	-	39,470	-	-	-	-	-	39,470
Capital Leases Payable, Current	-	-	26,914	26,914	23,355	153,181	176,536	-	-	203,450
Notes Payable, Current	-	-	4,875,444	4,875,444	-	-	-	-	-	4,875,444
Revenue Bonds, Current	-	-	50,000	50,000	-	-	-	-	-	50,000
Due to Practice Plan	-	-	-	-	1,760,377	-	1,760,377	(1,760,377)	-	-
Due to Trust Support Fund	-	-	17,475	17,475	-	-	-	(17,475)	-	-
Total Current Liabilities	53,428	243,487	5,057,956	5,354,871	3,652,586	153,181	3,805,767	(1,777,852)		7,382,786
Long-term Liabilities:										
Capital Leases	-	-	1,616	1,616	-	412,120	412,120	-	-	413,736
Revenue Bonds	-	-	785,000	785,000	-	-	-	-	-	785,000
Total Long-term Liabilities	-	-	786,616	786,616	-	412,120	412,120	-		1,198,736
Total Liabilities	53,428	243,487	5,844,572	6,141,487	3,652,586	565,301	4,217,887	(1,777,852)		8,581,522
Fund Balances:										
Dean's Academic Enhancement Subfund, Designated	-	2,416,485	-	2,416,485	-	-	-	-	-	2,416,485
Department Subfund, Designated	-	4,492,349	-	4,492,349	-	-	-	-	-	4,492,349
Designated for Trust Support	-	110,383	-	110,383	-	-	-	-	-	110,383
Designated for Clinical Operations	-	-	-	-	2,202,372	-	2,202,372	-	-	2,202,372
Designated for Trust Operations	390,950	-	-	390,950	-	-	-	-	-	390,950
Investment in Fixed Assets	-	-	3,596,414	3,596,414	-	2,229,691	2,229,691	-	-	5,826,105
Accumulated Other Comprehensive Income	-	527,293	-	527,293	-	-	-	-	-	527,293
Total Fund Balances	390,950	7,546,510	3,596,414	11,533,874	2,202,372	2,229,691	4,432,063	-		15,965,937
Total Liabilities and Fund Balances	\$ 444,378	\$ 7,789,997	\$ 9,440,986	\$ 17,675,361	\$ 5,854,958	\$ 2,794,992	\$ 8,649,950	\$ (1,777,852)		\$ 24,547,459

*Interfund amounts have not been eliminated.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 21 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Statement of Activities for the Year Ended December 31, 1999

	Trust				Practice Plan				Totals (Memorandum Only)*	
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total	Interfund Transactions		
REVENUES										
Patient Charges, Net of Contractual Adjustments and Refunds	\$ -	\$ -	\$ -	\$ -	\$ 18,629,394	\$ -	\$ 18,629,394	\$ -	\$	18,629,394
Other Professional Income	-	-	-	-	8,961,024	-	8,961,024	-	-	8,961,024
Contributions to Dean's Academic Enhancement Subfund	-	1,868,071	-	1,868,071	(1,868,071)	-	(1,868,071)	-	-	-
Contributions to Departmental Operations Subfund	-	266,868	-	266,868	(266,868)	-	(266,868)	-	-	-
Contributions from Dean's Academic Enhancement Subfund	-	(1,256,132)	-	(1,256,132)	1,256,132	-	1,256,132	-	-	-
Contributions to Trust from Other Sources	-	1,188,267	-	1,188,267	9,025	-	9,025	-	-	1,197,292
Investment Income	510,904	214	85,568	596,686	81,416	-	81,416	-	-	678,102
Rental Income	-	-	1,764,225	1,764,225	-	-	-	(1,473,974)	-	290,251
Other Income	-	362,050	91	362,141	1,485,286	-	1,485,286	(363,325)	-	1,484,102
Total Revenues	510,904	2,429,338	1,849,884	4,790,126	28,287,338	-	28,287,338	(1,837,299)	-	31,240,165
EXPENSES										
Non-faculty Compensation	69,851	277,626	-	347,477	6,236,062	-	6,236,062	-	-	6,583,539
Rent	-	-	64,460	64,460	1,583,519	-	1,583,519	(1,473,974)	-	174,005
Utilities and Telephone	-	13,596	264,102	277,698	249,649	-	249,649	-	-	527,347
Supplies	4,066	37,023	-	41,089	1,919,491	-	1,919,491	-	-	1,960,580
Dues, Licenses, Journals	-	26,238	-	26,238	278,880	-	278,880	-	-	305,118
Travel, Meetings, Special Events	5,971	85,476	-	91,447	441,497	-	441,497	-	-	532,944
Insurance	-	980	19,977	20,957	472,585	-	472,585	-	-	493,542
Contractual Services	81,051	308,250	-	389,301	1,981,101	-	1,981,101	(363,325)	-	2,007,077
Minor Equipment, Renovations, Repair and Maintenance	3,952	578,049	-	582,001	263,132	-	263,132	-	-	845,133
Recruitment	-	57,255	-	57,255	62,644	-	62,644	-	-	119,899
Resident and Student Expense	-	80,735	-	80,735	53,514	-	53,514	-	-	134,249
Contributions	153,327	1,392,266	-	1,545,593	-	-	-	-	-	1,545,593
Building Maintenance and Security	-	-	274,008	274,008	-	-	-	-	-	274,008
Management Fees	-	-	109,967	109,967	-	-	-	-	-	109,967

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 21 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Statement of Activities for the Year Ended December 31, 1999, (Continued)

	Trust				Practice Plan			Interfund Transactions	Totals (Memorandum Only)*
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total		
EXPENSES (CONTINUED)									
Interest	-	-	435,172	435,172	-	58,181	58,181	-	493,353
Depreciation and Amortization	-	-	299,663	299,663	-	545,888	545,888	-	845,551
Marketing	-	92,776	-	92,776	-	4,163	4,163	-	96,939
Bad Debts	-	-	-	-	360,578	-	360,578	-	360,578
Other	-	57,014	34,841	91,855	632,146	-	632,146	-	724,001
Faculty Compensation and Professional Expenses	-	-	-	-	12,186,077	-	12,186,077	-	12,186,077
Total Expenses	318,218	3,007,284	1,502,190	4,827,692	26,725,038	604,069	27,329,107	(1,837,299)	30,319,500
Excess (Deficiency) of Revenues Over Expenses	192,686	(577,946)	347,694	(37,566)	1,562,300	(604,069)	958,231	-	920,665
INTERFUND TRANSFERS									
Support from Practice Plan to Trust	-	1,951,361	-	1,951,361	(1,951,361)	-	(1,951,361)	-	-
Transfer (to) from Other Funds	-	(1,024,855)	50,171	(974,684)	(52,700)	1,027,384	974,684	-	-
Total	-	926,506	50,171	976,677	(2,004,061)	1,027,384	(976,677)	-	-
Excess (Deficiency) of Revenues and Transfers In over Expenses and Transfers Out	192,686	348,560	397,865	939,111	(441,761)	423,315	(18,446)	-	920,665
Other comprehensive income	-	(435,693)	-	(435,693)	-	-	-	-	(435,693)
Fund Balances, Beginning of Year	198,264	7,633,643	3,198,549	11,030,456	2,644,133	1,806,376	4,450,509	-	15,480,965
Fund Balances, End of Year	<u>\$ 390,950</u>	<u>\$ 7,546,510</u>	<u>\$ 3,596,414</u>	<u>\$ 11,533,874</u>	<u>\$ 2,202,372</u>	<u>\$ 2,229,691</u>	<u>\$ 4,432,063</u>	<u>\$ -</u>	<u>\$ 15,965,937</u>

*Interfund amounts have not been eliminated.

UNIVERSITY OF SOUTH CAROLINA

Notes to Financial Statements

June 30, 2000

NOTE 21 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Statement of Cash Flows for the Year Ended December 31, 1999

	Trust				Practice Plan					Totals (Memorandum Only)
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total	Interfund Transactions		
<u>Cash Flows from Operating Activities:</u>										
Excess (Deficiency) of Revenues and Transfers Over Expenses	\$192,686	\$ 348,560	\$ 397,865	\$ 939,111	\$ (441,761)	\$ 423,315	\$ (18,446)	\$ -	\$	920,665
Adjustments to Reconcile Excess (Deficiency) of Revenues and Transfers over Expenses to Net Cash Provided (used) by Operating Activities:										
Gain on Sale of Investments	-	(303,109)	-	(303,109)	-	-	-	-		(303,109)
Undistributed Earnings on Investments	-	(25,864)	(18,303)	(44,167)	-	-	-	-		(44,167)
Depreciation and Amortization	-	-	299,664	299,664	-	545,888	545,888	-		845,552
Provision for Doubtful Accounts	-	-	-	-	(63,578)	-	(63,578)	-		(63,578)
(Increase) Decrease In Assets:										
Patient Accounts Receivable	-	-	-	-	57,593	-	57,593	-		57,593
Other Receivables	(5,809)	(22,000)	16,271	(11,538)	(291,493)	-	(291,493)	-		(303,031)
Prepaid Items	-	8,495	-	8,495	(5,933)	-	(5,933)	-		2,562
Interfund Receivables	(201,725)	(317,229)	-	(518,954)	-	-	-	518,954		-
Increase (Decrease) In Liabilities:										
Accounts and Accrued Interest Payable	13,108	21,795	57,217	92,120	398,341	-	398,341	-		490,461
Accrued Compensated Absences	1,740	(53,862)	-	(52,122)	201,342	-	201,342	-		149,220
Accrued Retirement Contribution Payable	-	(75,348)	-	(75,348)	-	-	-	-		(75,348)
Interfund Payables	-	201,725	-	201,725	317,229	-	317,229	(518,954)		-
Net Cash Provided by (Used for) Operating Activities	-	(216,837)	752,714	535,877	171,740	969,203	1,140,943	-		1,676,820
<u>Cash Flows from Investing Activities:</u>										
Proceeds from Sale of Investments	-	1,138,181	100,000	1,238,181	-	-	-	-		1,238,181
Cash Paid for Investments	-	(1,246,571)	(1,200,000)	(2,446,571)	-	-	-	-		(2,446,571)
Cash Paid for Property and Equipment	-	-	(22,030)	(22,030)	-	(803,596)	(803,596)	-		(825,626)
Net Cash Provided by (Used for) Investing Activities	-	(108,390)	(1,122,030)	(1,230,420)	-	(803,596)	(803,596)	-		(2,034,016)
<u>Cash Flows from Capital and Related Financing Activities:</u>										
Principal Repayments, Capital Lease Obligations	-	-	(25,888)	(25,888)	(6,956)	(165,607)	(172,563)	-		(198,451)
Principal Repayments, Notes Payable	-	-	(115,319)	(115,319)	-	-	-	-		(115,319)
Principal Repayments, Revenue Bonds	-	-	(45,000)	(45,000)	-	-	-	-		(45,000)
Net Cash Provided by (Used for) Capital and Related Financing Activities	-	-	(186,207)	(186,207)	(6,956)	(165,607)	(172,563)	-		(358,770)
Net Increase (Decrease) in Cash and Cash Equivalents	-	(325,227)	(555,523)	(880,750)	164,784	-	164,784	-		(715,966)
Cash and Cash Equivalents, Beginning of Year	-	2,333,311	1,224,605	3,557,916	1,444,170	-	1,444,170	-		5,002,086
Cash and Cash Equivalents, End of Year	\$ -	\$ 2,008,084	\$ 669,082	\$ 2,677,166	\$ 1,608,954	\$ -	\$ 1,608,954	\$ -	\$	4,286,120

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 22 - RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for all of those risks except business interruption insurance coverage and directors and officers personal liability for fiduciary matters. The University sees the only reasonable application of business interruption insurance to be in university housing. Further, the University believes that the risk of a fiduciary claim against directors and officers is low in the public arena. Management believes coverages for all other risks of loss are sufficient to preclude any significant uninsured losses for the covered risks. Claims have been settled within the limits of the coverages in each of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, aircraft, and watercraft (inland marine);
4. Torts;
5. Natural disasters; and
6. Medical malpractice claims against covered hospitals, employees, third- and fourth-year medical students, and student health practitioners at student health services.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 22 - RISK MANAGEMENT (CONTINUED)

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for aircraft and ocean marine coverage. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The University also purchases a portion of its medical malpractice insurance coverage for healthcare providers through the State's insurance enterprise, the Medical Malpractice Patients' Compensation Fund.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft, misappropriation and for destruction up to \$500,000.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the unrestricted current fund. The University reports liabilities for underinsured risks of loss when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

NOTE 23- NOTES RECEIVABLE

Effective August 11, 1998, the University entered into an agreement with the University of South Carolina Educational Foundation, a related party, as authorized by South Carolina Code of Laws, Section 59-101-410. In accordance with this section, the University may lend certain of its endowment funds and auxiliary funds to the University of South Carolina Educational Foundation. Under terms of the agreement, the University will earn interest at a monthly rate as determined by the South Carolina State Treasurer. The University reports the monies lent to the Foundation in its unrestricted current funds and endowment funds. The balances of these notes receivable and the related accrued interest receivable at June 30, 2000, were \$19,943,910 and \$2,172,968. Interest earnings of \$1,309,705 are reported as interest or endowment income in their respective fund.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 2000

NOTE 24 - DETAILS OF FUND BALANCES

Details of fund balances as of June 30, 2000, are as follows:

	<u>Current Funds</u>		<u>Loan Funds</u>	<u>Endowment and Similar Funds</u>	<u>Plant Funds</u>			<u>Component Units</u>
	<u>Unrestricted</u>	<u>Restricted</u>			<u>Unexpended</u>	<u>Retirement of Indebtedness</u>	<u>Investment in Plant</u>	
Unrestricted:								
Unexpended, Designated	\$ -	\$ -	\$ -	\$ -	\$26,576,092	\$ -	\$ -	\$ -
Endowment	-	-	-	82,221	-	-	-	-
Quasi-Endowment	-	-	-	14,942,546	-	-	-	-
Unrestricted, Unallocated	44,496,903	-	-	-	-	-	-	-
Deans Academic Enhancement Subfund,								
Designated	-	-	-	-	-	-	-	2,416,485
Department Subfund, Designated	-	-	-	-	-	-	-	4,492,349
Designated for Trust Support	-	-	-	-	-	-	-	110,383
Designated for Clinical Operations	-	-	-	-	-	-	-	2,202,372
Designated for Trust Operations	-	-	-	-	-	-	-	390,950
Net Investment in Plant	-	-	-	-	-	-	782,364,973	-
Restricted:								
Contracts and Grants	-	8,390,167	-	-	-	-	-	-
Scholarships	-	1,183,088	-	-	-	-	-	-
U.S. Government Grants								
Refundable	-	-	17,311,848	-	-	-	-	-
University Loan Funds	-	-	2,089,861	-	-	-	-	-
Endowment	-	-	-	10,054,128	-	-	-	-
Quasi-Endowment	-	-	-	900,049	-	-	-	-
Term Endowment	-	-	-	65,449	-	-	-	-
Unexpended	-	-	-	-	47,621,076	-	-	-
Retirement of Indebtedness	-	-	-	-	-	1,401,485	-	-
Investment in Fixed Assets	-	-	-	-	-	-	-	5,826,105
Accumulated Other Comprehensive								
Income	-	-	-	-	-	-	-	527,293
Totals	<u>\$44,496,903</u>	<u>\$9,573,255</u>	<u>\$19,401,709</u>	<u>\$26,044,393</u>	<u>\$74,197,168</u>	<u>\$1,401,485</u>	<u>\$782,364,973</u>	<u>\$15,965,937</u>

